

FAIR ISAAC CORP
Form 10-K
November 28, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2007**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from to**

Commission File Number 0-16439

Fair Isaac Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1499887

(I.R.S. Employer Identification No.)

**901 Marquette Avenue, Suite 3200
Minneapolis, Minnesota**

(Address of principal executive offices)

55402-3232

(Zip Code)

Registrant's telephone number, including area code:

612-758-5200

Securities registered pursuant to Section 12(b) of the Act:

(Title of Class)

(Name of Each Exchange on which Registered)

Common Stock, \$0.01 par value per share
Preferred Stock Purchase Rights

New York Stock Exchange, Inc.
New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):
Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 31, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,480,955,703 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on November 16, 2007 was 50,299,240 (excluding 38,557,543 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 4, 2008.

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FORWARD LOOKING STATEMENTS

Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). In addition, certain statements in our future filings with the Securities and Exchange Commission (SEC), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as believes, anticipates, expects, intends, targeted, sh potential, goals, strategy, and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Item 1A of Part I, Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2008.

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PART I

Item 1. Business

GENERAL

Fair Isaac Corporation (NYSE: FIC) (together with its consolidated subsidiaries, the Company, which may also be referred to in this report as we, us, our, and Fair Isaac) provides products and services that enable businesses to automate, improve and connect decisions to enhance business performance. Our predictive analytics and decision management systems power hundreds of billions of customer decisions each year.

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in 80 countries use our Enterprise Decision Management technology to target and acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses, and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do insurers, retailers, telecommunications providers, healthcare organizations, pharmaceutical companies and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure in the United States of credit risk, empowering them to manage their financial health.

More information about us can be found on our principal website, www.fairisaac.com. We make our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, as well as amendments to those reports, available free of charge through our website as soon as reasonably practicable after we electronically file them with the SEC. Information on our website is not part of this report.

PRODUCTS AND SERVICES

We help businesses automate, improve and connect decisions across the enterprise, an approach we commonly refer to as Enterprise Decision Management, or EDM. Most of our solutions address customer decisions, including customer targeting and acquisition, account origination, customer management, fraud, collections and recovery. We also help businesses improve noncustomer decisions such as transaction and claims processing, and network integrity review. Our solutions enable users to make decisions that are more precise, consistent and agile, and that systematically advance business goals. This helps our clients to reduce the cost of doing business, increase revenues and profitability, reduce losses from risks and fraud, and increase customer loyalty.

Our Segments

We deliver EDM through products and services that we categorize into the following four operating segments:

Strategy Machine® Solutions. These are preconfigured EDM applications designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management. This segment also includes our myFICO solutions for consumers.

Scoring Solutions. Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, and we also offer services that provide our scores to clients directly.

Professional Services. Through our professional services, we tailor our EDM products to our clients environments, and we design more effective decisioning environments for our clients. This segment includes

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revenues from custom engagements, business solution and technical consulting services, systems integration services, and data management services.

Analytic Software Tools. This segment is composed of software tools that clients can use to create their own custom EDM applications.

Comparative segment revenues, operating income and related financial information for fiscal 2007, 2006 and 2005 are set forth in Note 17 to the accompanying consolidated financial statements.

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Key Products and Services by Operating Segment

Operating Segment	Key Products and Services
Strategy Machine Solutions	
Marketing	Fair Isaac MarketSmart Decision System® solution
Originations	LiquidCredit® decision engine LiquidCredit® service Capstone® Decision Manager Capstone® Decision Accelerator
Customer Management	TRIAD™ adaptive control system TRIAD™ Transaction Scores TelAdaptive® account management service
Fraud	Falcon™ Fraud Manager Fraud Predictor with Merchant Profiles Falcon™ ID solution CardAlert Fraud Manager Fraud/Risk Analytics for Telecom (including Revenue and Network Assurance) RoamEx® Roamer Data Exchanger
Collections & Recovery	Debt Manager™ solution Recovery Management System™ solution (RMS) ScoreNet® network PlacementsPlus® service Placement Optimizer SM service
Insurance and Healthcare	Fair Isaac SmartAdvisor® medical bill review Payment Optimizer® solution VeriComp® Fraud Manager MIRA™ Claims Advisor
Consumer	myFICO® service Score Watch™ subscription
Scoring Solutions	FICO® scores NextGen FICO® scores FICO® Expansion® scores Global FICO™ scores Marketing and bankruptcy scores Commercial credit risk scores Credit-based insurance scores Property PredictR™ scores FICO® score delivery PreScore® Service

Professional Services

Solution and technology consulting
Data management services
Industry consulting
Analytic consulting
Fraud consulting
Medical bill review services

Analytic Software Tools

Blaze Advisor™ business rules management system
Model Builder for Predictive Analytics
Model Builder for Decision Trees
Decision Optimizer
Vectus® software

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Our Solutions

Our solutions involve three fundamental disciplines:

Analytics to identify the risks and opportunities associated with individual clients, prospects and transactions, in order to detect patterns such as fraud, and to improve the design of decision logic or strategies ;

Data management, profiling and text recognition that bring extensive customer information to every decision; and

Software such as rules management systems that implement business rules, models and decision strategies, often in a real-time environment.

All of our solutions are designed to help businesses make decisions that are faster, more precise, more consistent and more agile, while reducing costs and risks incurred in making decisions.

Strategy Machine Solutions

We develop industry-tailored EDM applications, which we call Strategy Machine Solutions, that apply analytics, data management and decision management software to specific business challenges and processes. These include credit offer prescreening, insurance claims management, telecommunications fraud prevention and others. Our Strategy Machine Solutions primarily serve clients in the financial services, insurance, healthcare, retail and telecommunications sectors.

Marketing Strategy Machine Solutions

The chief Strategy Machine offering for marketing is our Fair Isaac MarketSmart Decision System[®] solution (MarketSmart). The MarketSmart solution is a suite of products, capabilities and services designed to integrate all of the technology and analytic services needed to perform context-sensitive customer acquisition, cross-selling and retention programs. The MarketSmart solution enables companies that offer multiple products and use multiple channels (companies such as large financial institutions, consumer branded goods companies, pharmaceutical companies, retail merchants and hospitality companies) to execute more efficient and profitable customer interactions. Services offered under the MarketSmart brand name include SmartLink customer data integration services; services that use transaction analytics to identify customer patterns and help clients target their marketing activities; services that enable real-time marketing through direct consumer interaction channels; campaign management and optimization services; interactive tools that automate the design, execution and collection of customer response data across multiple channels; and customer data collection, management and profiling services.

A number of our marketing services are designed for specific industries, such as retail and pharmaceuticals. For example, our services for retailers include using analytics to help retailers identify and market to their store shoppers; analyzing transaction data to provide insights into store customer activity and compare it with sales pattern activity across the marketplace; and analyzing a retailer's purchase transaction data to help them understand buying patterns, sequences and contexts.

Originations Strategy Machine Solutions

We provide solutions that enable banks, credit unions, finance companies, installment lenders, telecommunications service providers and other companies to automate and improve the processing of requests for credit or service. These solutions increase the speed and efficiency with which requests are handled, reduce losses and increase approval rates

through analytics that assess applicant risk, and reduce the need for manual review by loan officers.

Our solutions include the web-based LiquidCredit® decision engine and LiquidCredit® service, which are primarily focused on the credit decision and offered largely to mid-tier financial services institutions, e-commerce providers and telecommunications providers; and Capstone® Decision Manager, a complete end-user software solution for application decisioning and processing. We also offer Capstone Decision Accelerator, which is a rules-based application based on our Blaze Advisor™ business rules management system. We also offer custom and consortium-based credit risk and application fraud models.

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Customer Management Strategy Machine Solutions

Our customer management products and services enable businesses to automate and improve decisions on their existing customers. These solutions help businesses decide which customers to cross-sell, what additional products and services to offer, whether customer risk levels have increased or decreased, when and how much to change a customer's credit line, what pricing adjustments to make in response to account performance or promotional goals, and how to treat delinquent and high-risk accounts.

We provide customer management solutions for:

Financial Services. In financial services, our leading account and customer management product is the TRIAD™ adaptive control system. Our adaptive control systems are so named because they enable businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a champion/challenger environment. The TRIAD system is the world's leading credit account management system, and our adaptive control systems are used by more than 250 issuers worldwide to manage approximately 65% of the world's credit card accounts. Our latest version of the TRIAD system enables users to manage risk and communications at both the account and borrower level from a single platform. We also offer transaction-based neural network models (the term neural network is defined under Technology later in this section) called TRIAD Transaction Scores that help card issuers identify high-risk behavior more quickly and thus manage their credit card accounts more profitably. We market and sell TRIAD end-user software licenses, maintenance, consulting services, and strategy design and evaluation. Additionally, we provide TRIAD services and similar credit account management services through 12 third-party credit card processors worldwide, including the two largest processors in the U.S., First Data Resources, Inc. and Total System Services, Inc. We also provide the TRIAD system as a hosted service in Application Service Provider (ASP) mode.

Telecommunications. The TelAdaptive® account management service offers telecommunications service providers account management functionality similar to the TRIAD system, including receivables risk management, account spending limits, churn management and cross-sell communications.

Insurance. We provide property and casualty insurers with decision management solutions that enable them to create, test and implement decision strategies for areas such as cross-selling, pricing, claims handling, retention, prospecting and underwriting.

Fraud Strategy Machine Solutions

Our fraud products improve our clients' profitability by predicting the likelihood that a customer account is experiencing fraud. Our fraud products analyze customer transactions in real time and generate recommendations for immediate action, which is critical to stopping fraud and abuse. These applications can also detect some organized fraud schemes that are too complex and well-hidden to be identified by other methods.

Our solutions are designed to detect and prevent a wide variety of fraud and risk types across multiple industries, including credit and debit payment card fraud; identity fraud; telecommunications subscription fraud, technical fraud and bad debt; healthcare fraud; Medicaid and Medicare fraud; and property and casualty insurance fraud, including workers' compensation fraud. Fair Isaac fraud solutions protect merchants, financial institutions, insurance companies, telecommunications carriers, government agencies and employers from losses and damaged customer relationships caused by fraud.

Our leading fraud detection solution is Falcon® Fraud Manager, recognized as the leader in global payment card fraud detection. Falcon Fraud Manager's neural network predictive models and patented profiling technology, both further described below in the Technology section, examine transaction, cardholder and merchant data to detect a wide range of credit and debit card fraud quickly and accurately. Falcon Fraud Manager analyzes card transactions in real time, assesses the risk of fraud, and takes the user-defined steps to prevent fraud while expediting legitimate transactions. Falcon Fraud Manager protects hundreds of millions of credit and debit card accounts and is used in approximately 65% of all credit card transactions worldwide.

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Fraud Predictor with Merchant Profiles is used in conjunction with Falcon Fraud Manager to improve fraud detection rates by analyzing merchant profile data. The merchant profiles include characteristics that reveal, for example, merchants that have a history of higher fraud volumes, and which purchase types and ticket sizes have most often been fraudulent at a particular merchant.

Falcon ID solution enables lenders and telecommunications service providers to control identity fraud across the customer lifecycle. Falcon ID relies on multiple sources of data and complex statistical modeling techniques to identify activity that is at high risk of stemming from identity theft. It also provides business rules management that companies can use to identify and resolve cases that appear to involve identity theft.

In addition to the Falcon products for financial services institutions, we offer CardAlert Fraud Manager. CardAlert Fraud Manager is a solution for fighting debit and ATM fraud in the U.S. The CardAlert service identifies and reports counterfeit payment cards to issuers before the majority of them incur fraud losses. The service analyzes daily transactions across multiple financial institutions, and uses this data to pinpoint multi-card fraud and identify common points of compromise.

We also provide a set of Fraud/Risk Analytics for Telecom solutions that are specifically designed to help telecommunications service providers reduce losses in four key areas. The bad debt solution is used to mitigate early-life and ongoing bad debt. The fraud solution is used to reduce complex types of fraud such as subscription fraud, technical fraud, network fraud, internal fraud, dealer/agent fraud, calling card fraud, cloning and clip-on fraud. The revenue assurance solution predicts revenue leakage in the switch data collection, data mediation and billing/rating system phases. And the network assurance solution predicts problems in a telecommunications network by detecting intrusion, abuse or network integrity compromises. In addition, we offer RoamEx™ Roamer Data Exchanger, which delivers near real-time exchange of roamer call records that occur when subscribers roam outside a carrier's home network. RoamEx Roamer Data Exchanger is used to exchange more than 90% of North American wireless carriers' roamer call detail records.

Collections & Recovery Strategy Machine Solutions

Our leading solutions in this area are the Debt Manager™ solution and the Recovery Management System™ (RMS®) solution. The Debt Manager solution automates the full cycle of collections and recovery, including early collections, late collections, asset disposal, agency placement, recovery, litigation, bankruptcy, asset management and residual balance recovery. The RMS solution is focused on the later phases of distressed debt management, including bankruptcy and agency management. Companies using the Debt Manager and RMS solutions can access partner services such as collection agencies and attorneys via the ScoreNet® network, which provides web-based access to and from thousands of third-party collections and recovery service providers, as well as access to multiple data sources and Fair Isaac solutions hosted in ASP mode.

Other solutions for collections and recovery include the PlacementsPlus® service, an account placement optimization and management system; the Placement OptimizerSM service, which uses artificial intelligence-based analytics used to identify the agency that is likely to collect the most for each account; and custom collection and recovery models implemented in an ASP environment. Those analytic-based solutions can also be delivered via the ScoreNet network.

Insurance and Healthcare Strategy Machine Solutions

We provide software solutions and services that automate the review and repricing of medical bills for workers compensation and automobile medical injuries. Using these solutions, property and casualty insurers can automatically review and reprice a significant percentage of medical bills without human intervention. This allows for greater consistency and accuracy, which are important factors for regulatory compliance.

Our principal solution in this area is the Fair Isaac SmartAdvisor® medical bill review software. This solution provides medical bill review and repricing for workers compensation and automobile medical injury claims. It checks each bill against an extensive database of state fee schedules, automated contracts and user-defined policies to help insurers and others get the maximum savings on every bill reviewed. The SmartAdvisor software uses our

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business rules management technology to increase the speed, accuracy and consistency of decisions and reduce labor costs. It is available in both licensed client/server and ASP versions.

We also provide fraud solutions for different segments of the insurance healthcare market. Our principal solutions in this area are:

Payment Optimizer[®] fraud detection system, which provides both prepayment claims scoring and retrospective analysis to help payers reduce fraud losses and ensure payment integrity.

VeriComp[®] Fraud Manager software, which uses neural networks and data analysis to identify potentially fraudulent workers' compensation claims that need investigation or special handling.

Additionally, we serve the insurance claims management market through our MIRA[™] Claims Advisor product which uses predictive models to forecast appropriate claims reserves based on individual claim data. We also provide services that help healthcare payers reduce claims leakage and detect fraud, and that help hospitals determine payment strategies for patients during the admission process.

Consumer Strategy Machine Solutions

Through our myFICO[®] service, we provide solutions based on our analytics to consumers, sold directly by us or through distribution partners. Consumers can use the myfico.com website to purchase their FICO[®] scores, the credit reports underlying the scores, explanations of the factors affecting their scores, and customized advice on how to manage their scores. Customers can also use the myFICO[®] service to simulate how taking specific actions would affect their FICO[®] score. The myfico.com website is the only source for consumers to obtain their FICO[®] scores and credit reports from all three of the major U.S. credit reporting agencies. Consumers can also purchase Score Watch[™] subscriptions, which deliver alerts via email and SMS or text messages when the user's scores or balances change. The myFICO[®] products and subscription offerings are available online at www.myfico.com in partnership with the three major U.S. credit reporting agencies: Equifax Inc. (Equifax), TransUnion Corporation (TransUnion) and Experian Information Solutions, Inc. (Experian). The myFICO[®] products and subscription offerings are also available to consumers through lenders, financial portals and numerous other partners.

Scoring Solutions

We develop the world's leading scores based on third-party data. Our FICO[®] credit scores are used in most U.S. credit decisions, by most of the major financial service and credit card organizations as well as by mortgage and auto loan originators. These scores provide a consistent and objective measure of an individual's credit risk. Credit grantors use the FICO[®] scores to prescreen solicitation candidates, to evaluate applicants for new credit and to review existing accounts. The FICO[®] scores are calculated based on proprietary scoring models. The scores produced by these models are available through each of the three major credit reporting agencies in the United States: TransUnion, Experian and Equifax. Users generally pay the credit reporting agencies scoring fees based on usage, and the credit reporting agencies share these fees with us.

In fiscal 2007, we released upgraded versions of the FICO[®] score in Canada that we deliver through Equifax and TransUnion and provide credit grantors with additional predictive strength. In addition, we completed work on a substantially upgraded version of the FICO[®] score for U.S. lenders. This release will include enhancements that increase its predictive power. It is expected to be installed at the three major credit reporting agencies beginning in fiscal 2008. We also offer the NextGen FICO[®] score to U.S. credit grantors desiring an even stronger risk predictor than the classic FICO[®] scores. FICO[®] scores are also delivered through TransUnion ITC in South Africa and CallCredit in the UK.

Our scoring portfolio also includes the FICO® Expansion® score, which provides scores on U.S. consumers who do not have traditional FICO® scores, generally because they have too few credit accounts being reported to the credit reporting agencies. The score analyzes multiple sources of non-traditional credit data accessed by our subsidiary, Fair Isaac Network, Inc., and the score and associated reports are provided to lenders through a subsidiary called Fair Isaac Credit Services, Inc.

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Outside of North America, we offer the Global FICO® score, which extends our thorough analysis of multiple-lender credit data to countries around the world that have established and emerging credit bureaus. Like FICO® scores in North America, Global FICO® scores help lenders in multiple countries leverage the FICO® score's predictive analysis to assess the risk of prospects, applicants and borrowers, and are particularly valuable in markets where there is not a dominant credit bureau risk score available. Global FICO® scores are in use or being implemented in more than 16 different countries across four continents. In fiscal 2007 we extended the score to Korea through a multi-year agreement with Korea Credit Bureau.

In addition to the scoring noted above, we also offer marketing and bankruptcy scores through the U.S. credit reporting agencies; an application fraud, revenue and bankruptcy score available in Canada; consumer risk scores through credit reporting agencies in Canada, South Africa and the U.K.; commercial credit scores delivered by both U.S. and U.K. credit reporting agencies; and a bankruptcy scoring service offered through ISC, a subsidiary of Visa USA.

We have developed scoring systems for insurance underwriters and marketers. Such systems use the same underlying statistical technology as our FICO® risk scores, but are designed to predict applicant or policyholder insurance loss risk for automobile or homeowners' coverage. Our insurance scores are available in the U.S. from TransUnion, Experian, Equifax and ChoicePoint, Inc., and in Canada from Equifax. We also offer an insurance score called the Property PredictR™ score, which analyzes property inspection database data from an insurance services provider, Millennium Information Services, Inc., to calculate the loss risk of a property.

We provide credit bureau scoring services and related consulting directly to users in financial services through two U.S.-based services: PreScore® Service for prescreening solicitation candidates, and the FICO® score delivery service (formerly known as ScoreNet® Network) for customer account management.

Professional Services

We provide a variety of custom offerings, business solution and technology consulting services, and data management services to clients worldwide. The focus is on leveraging our industry experience and technical expertise, typically on a custom basis, to help clients address unique business challenges, to support the usage of our Strategy Machine® solutions and our analytic software tools, and to create new sales opportunities for our other offerings. This group also performs consultative selling, developing customized solution sets combining various products and capabilities to meet unique client or industry opportunities. These services are generally offered on an hourly or fixed fee basis.

Our services include:

Solution and technology consulting. We help clients implement and use our solutions and technologies. These projects draw on our product knowledge, industry expertise and technical skills. Each project is delivered using our EDM consulting methodology.

Data management services. We help clients gain insight into their customers by enabling the access, analysis and application of corporate data and information. This work involves implementing enterprise-level data and decision management systems, including data warehouses and marts, campaign management tools, database marketing engines, rules-based decision engines and analytical applications.

Industry consulting. We combine our knowledge of EDM technology with our consultants' experience to address the specific needs of companies in the financial services, retail, pharmaceuticals, telecommunications, insurance and healthcare industries. Our industry consultants provide a wide range of consulting services, including business strategy consulting and custom solutions development. Another focus of this work is

helping companies comply with regulations, such as the New Basel Capital Accord or Solvency II.

Analytic consulting. We perform custom predictive modeling and related analytic projects for clients in multiple industries. This work leverages our analytic methodologies and expertise to solve risk management and marketing challenges for a single business, using that business's data and industry best practices to develop a highly customized solution. Most of this work falls under our heading of Predictive Science engagements, which provide greater insight into customer preferences and future customer behavior. We also perform broader strategy optimization projects using our Strategy Science technology and related

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advanced analytic methodologies. These projects apply data and proprietary algorithms to the design of customer treatment strategies.

Fraud consulting. We complement our fraud products with consulting engagements that help businesses benchmark their performance, assess areas to improve and adopt best practices and solutions aimed at reducing fraud losses. These engagements draw on Fair Isaac's experience helping lenders and other parties worldwide bring fraud losses under control and implement more successful anti-fraud programs.

Medical bill review services. Using Fair Isaac's medical bill review software, we provide turnkey insurance bill review services at selected locations across the country. These service bureau operations offer expert medical bill and preferred provider review for workers' compensation and auto medical insurance bills, including the additional review of complex medical, hospital and surgical bills.

Analytic Software Tools

We provide end-user software products that businesses use to build their own tailored EDM applications. In contrast to our packaged Strategy Machine solutions developed for specific industry applications, our analytic software tools support the addition of EDM capabilities to virtually any application or operational system. These tools are sold as licensed software, and can be used by themselves or together to advance a client's Enterprise Decision Management. We use these tools as common software components for our own EDM applications, described above in the Strategy Machine Solutions section. They are also key components of our EDM architecture, described in the Technology section. We also partner with third-party providers within given industry markets and with major software companies to embed our tools within existing applications.

The principal products offered are software tools for:

Rules Management. The Blaze Advisor™ business rules management system is used to design, develop, execute and maintain rules-based business applications. The Blaze Advisor system enables businesses to more quickly develop complex decision making applications, respond to changing customer needs, implement regulatory compliance and reduce the total cost of day-to-day operations. The Blaze Advisor system is sold as an end-user tool and is also the rules engine within several of our Strategy Machine solutions. A related software offering called SmartForms for Blaze Advisor system is used to create and manage dynamic, web-based forms that improve the completeness and accuracy of customer data collected online. The Blaze Advisor system, available in six languages, is a multi-platform solution that supports Web Services and SOA, Java 2 Enterprise Edition (J2EE) platforms, Microsoft .NET and COBOL for z/OS mainframes, and is the first rules engine to support Java, .NET and COBOL deployment of the same rules. It also incorporates the exclusive Rete III rules execution technology, which improves the efficiency and speed with which the Blaze Advisor system is able to process and execute complex, high-volume business rules. The latest version of Blaze Advisor, released in fiscal 2007, focuses on rules lifecycle management to help customers uniquely address governance, proactively detect errors and accelerate time-to-production. This version also includes tight integration with Model Builder for Predictive Analytics and support for PMML (Predictive Modeling Markup Language).

Model Development. Model Builder for Predictive Analytics enables the user to develop and deploy sophisticated predictive models for use in automated decisions. This software is based on the methodology and tools Fair Isaac uses to build both client-level and industry-level predictive models, and which we have evolved over nearly 40 years. The predictive models produced can be embedded in custom production applications or one of our Strategy Machine Solutions and can also be executed in Blaze Advisor. The latest version of Model Builder, released in fiscal 2007, includes several enhancements to improve data import and sampling, as well

as a scorecard creation wizard that makes building a new scorecard faster.

Data-Driven Strategy Design. Model Builder for Decision Trees enables the user to create empirical strategies, augmenting the user's expert judgment by applying data-driven analytics to discover patterns empirically. In designing the steps and criteria of a decision strategy, the user can segment the customer base for targeted action based on the results of different performance measures, and can simulate the performance of the designed strategy. Decision Optimizer, a key component in our Strategy Science offerings, uses an

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optimization algorithm to deliver customer treatment strategies or rule sets that improve results along one or more specified business objectives, while meeting stated constraints. The data-driven strategies produced by these tools can be executed by Blaze Advisor or one of our Strategy Machine® solutions.

Case Management. Vectus® software allows organizations to build and deliver enterprise-class applications for handling complex case management and relationships across customer, supplier and partner chains. It supports many types of business solutions, including account recruitment, customer servicing, complaints management and legal process. Vectus software provides a complete environment for developing, maintaining and executing process-oriented solutions.

COMPETITION

The market for our advanced solutions is intensely competitive and is constantly changing. Our competitors vary in size and in the scope of the products and services they offer. We encounter competition from a number of sources, including:

in-house analytic and systems developers;

scoring model builders;

enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;

business intelligence solutions providers;

business process management and business rules management providers;

providers of credit reports and credit scores;

providers of automated application processing services;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

providers of account/workflow management software;

managed care organizations; and

software companies supplying modeling, rules, or analytic development tools.

We believe that none of our competitors offers the same mix of products as we do, has the same expertise in predictive analytics and their integration with decision management software, and can offer the enhanced lifecycle management capabilities we offer in areas like financial services. However, certain competitors may have larger shares of particular geographic or product markets.

Strategy Machine® Solutions

The competition for our Strategy Machine Solutions varies by both application and industry.

In the customer acquisition market, we compete with Acxiom, Experian, SAS, SPSS, Epsilon, Harte-Hanks, and Oracle, among others. We also compete with traditional advertising agencies and companies' own internal information technology and analytics departments.

In the origination market, we compete with Experian, CGI/AMS, Equifax, Provenir and Lightbridge, among others.

In the customer management market, we compete with CGI/AMS and Experian, among others.

In the fraud solutions market, we mainly compete with Fortent, ID Analytics, Experian, SAS, Retail Decisions plc and ACI Worldwide, a division of Transaction Systems Architects, in the financial services market; ECTel,

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Hewlett-Packard, Subex Azure and Neural Technologies in the telecommunications market; IBM and ViPS in the healthcare segment; and SAS, Infoglide Software Corporation, NetMap Analytics and Magnify in the property and casualty and workers' compensation insurance market.

In the collections and recovery solutions market, we mainly compete with CGI/AMS, Columbia Ultimate, Ontario Systems, Austin Logistics, Experian, Attentiv Systems and various boutique firms for software and ASP servicing and in-house scoring and computer science departments, along with the three major U.S. credit reporting agencies and Experian-Scorex for scoring and optimization projects.

In the insurance and healthcare solutions market, we mainly compete with Ingenix, First Health, CorVel Corporation, SAS, ISO, IBM, Mitchell International, Inc., and Concentra Managed Care.

For our direct-to-consumer services that deliver credit scores, credit reports and consumer credit education services, we compete with our credit reporting agency partners and their affiliated companies, as well as with Trilegiant, InterSections and others.

Scoring Solutions

In this segment, we compete with both outside suppliers and in-house analytics and computer systems departments for scoring business. Major competitors among outside suppliers of scoring models include the three major credit reporting agencies in the U.S. and Canada, which are also our partners in offering our scoring solutions; Experian and Experian-Scorex (U.S. partner), TransUnion and TransUnion International, Equifax, VantageScore (a joint partnership established by the major U.S. credit reporting agencies), CRIF and other credit reporting agencies outside the United States; and other data providers like LexisNexis and ChoicePoint, some of which also represent Fair Isaac partners.

Professional Services

We compete with a variety of organizations that offer consulting services, primarily specialty technology and consulting firms. In addition, a client may use its own resources rather than engage an outside firm for these services. Our competitors include information technology product and services vendors, management and strategy consulting firms, smaller specialized information technology consulting firms and analytical services firms.

Analytic Software Tools

Our primary competitors in this segment include SAS, SPSS, Angoss, ILOG, Computer Associates International and Pegasystems.

Competitive Factors

We believe the principal competitive factors affecting our markets include: technical performance; access to unique proprietary databases; availability in ASP format; product attributes like adaptability, scalability, interoperability, functionality and ease-of-use; product price; customer service and support; the effectiveness of sales and marketing efforts; existing market penetration; and our reputation. Although we believe our products and services compete favorably with respect to these factors, we may not be able to maintain our competitive position against current and future competitors.

MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including financial services, insurance, retail, telecommunications, healthcare, pharmaceuticals and governmental agencies. During fiscal 2007, end users of our products included 90 of the 100 largest financial institutions in the United States; approximately two-thirds of the largest 100 banks in the world; and the 100 largest U.S. credit card issuers. Our clients also include more than 300 insurers and healthcare payers, including the top 10 U.S. property and casualty insurers; more than 100 retailers and general merchandisers, including about half of the top 50 U.S. retailers; more than 100 government or public agencies; more than 100 telecommunications providers, including seven of the top ten global providers; and more than 150 healthcare and

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pharmaceuticals companies, including eight of the world's top ten pharmaceuticals companies. Nine of the top ten companies on the 2007 *Fortune* 500 list use Fair Isaac's solutions.

In addition, our consumer services are marketed to an estimated 200 million U.S. consumers whose credit relationships are reported to the three major credit reporting agencies.

In the United States, we market our products and services primarily through our own direct sales organization that is organized around Integrated Client Networks, or ICNs, which are sales teams that focus on customer segments typically aligned by vertical market and geography. Sales groups are based in our headquarters and in field offices strategically located both in and outside the United States. We also market our products through indirect channels, including alliance partners and other resellers.

During fiscal 2007, 2006 and 2005, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 19%, 18% and 17% of our total revenues, respectively.

Outside the United States, we market our products and services primarily through our subsidiary sales organizations. Our subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary. We also market our products through resellers and independent distributors in international territories not covered by our subsidiaries' direct sales organizations.

Our largest market segments outside the United States are the United Kingdom and Canada. In addition, we have delivered products to users in over 80 countries.

Revenues from international customers, including end users and resellers, amounted to 29%, 28% and 25% of our total revenues in fiscal 2007, 2006 and 2005, respectively. See Note 17 to the accompanying consolidated financial statements for a summary of our operating segments and geographic information.

TECHNOLOGY

We specialize in analytics, software and data management technologies that analyze data and drive business processes and decision strategies. We maintain active research in a number of fields for the purposes of deriving greater insight and predictive value from data, making various forms of data more usable and valuable to the model-building process, and automating and applying analytics to the various processes involved in making high-volume decisions in real time.

Because of our pioneering work in credit scoring and fraud detection, we are widely recognized as the leader in predictive analytics. In addition, our Blaze Advisor software is consistently ranked as a leader in rules management systems. In all our work, we believe that our tools and processes are among the very best commercially available, and that we are uniquely able to integrate advanced analytic, software and data technologies into mission-critical business solutions that offer superior returns on investment.

In 2007, we began the development of an integrated technical architecture for Enterprise Decision Management, which will ensure interoperability across Fair Isaac systems. Our intention is to bring greater flexibility, higher analytic performance and better decisions across the lifecycle. Building on Fair Isaac's broad and deep experience in developing EDM applications, the architecture is service-oriented, designed for easy standards-based integration with our clients' core systems and will support and deliver ever more powerful analytics that operate both within specific stages of the customer lifecycle and across them. This EDM architecture will contain capabilities from existing Fair Isaac products, from new and existing components and from third-party providers. Over the next three years, we will develop the architecture's components while simultaneously migrating our software products onto the architecture.

This migration will take the form of successive product releases that also provide immediate client value through added functionality.

The technologies listed below are all supported by the EDM architecture, which will create tighter integration between our Strategy Machine solutions, as well as our Analytic Software Tools.

Table of Contents**Principal Areas of Expertise**

Predictive Modeling. Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time. A number of analytic methodologies underlie our products in this area. These include proprietary applications of both linear and nonlinear mathematical programming algorithms, in which one objective is optimized within a set of constraints, and advanced neural systems, which learn complex patterns from large data sets to predict the probability that a new individual will exhibit certain behaviors of business interest. We also apply various related statistical techniques for analysis and pattern detection within large datasets. For example, we recently developed Peacock™, a technology, which can analyze large-scale purchase transaction data to reveal product relationships, purchase patterns and sequences.

Decision Analysis and Optimization. Decision analysis refers to the broad quantitative field that deals with modeling, analyzing and optimizing decisions made by individuals, groups and organizations. Whereas predictive models analyze multiple aspects of individual behavior to forecast future behavior, decision analysis analyzes multiple aspects of a given decision to identify the most effective action to take to reach a desired result. We have developed an integrated approach to decision analysis that incorporates the development of a decision model that mathematically maps the entire decision structure; proprietary optimization technology that identifies the most effective strategies, given both the performance objective and constraints; the development of designed testing required for active, continuous learning; and the robust extrapolation of an optimized strategy to a wider set of scenarios than historically encountered. This technology is behind our Strategy Science solutions.

Transaction Profiling. Transaction profiling is a patent-protected technique used to extract meaningful information and reduce the complexity of transaction data used in modeling. Many of our products operate using transactional data, such as credit card purchase transactions, or other types of data that change over time. In its raw form, this data is very difficult to use in predictive models for several reasons: First, an isolated transaction contains very little information about the behavior of the individual who generated the transaction. In addition, transaction patterns change rapidly over time. Finally, this type of data can often be highly complex. To overcome these issues, we have developed a set of proprietary techniques that transform raw transactional data into a mathematical representation that reveals latent information, and which make the data more usable by predictive models. This profiling technology accumulates data across multiple transactions of many types to create and update profiles of transaction patterns. These profiles enable our neural network models to efficiently and effectively make accurate assessments of, for example, fraud risk and credit risk within real-time transaction streams.

Customer Data Integration. Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household, through the application of persistent keying technology.

Decision Management Software. In order to make a decision strategy operational, the various steps and rules need to be programmed or exported into the business software infrastructure, where it can communicate with front-end, customer-facing systems and back-end systems such as billing systems. We have developed software systems, sometimes known as decision engines and business rules management systems, that perform the necessary functions to execute a decision strategy. Our software includes very efficient programs for these functions, facilitating, for

example, business user definition of extremely complex decision strategies using graphic user interfaces; simultaneous testing of hundreds of decision strategies in champion/challenger (test/control) mode; high-volume processing and analysis of transactions in real time; integration of multiple data sources; and execution of predictive models for improved behavior forecasts and finer segmentation. Decision management software is an integral part of our Strategy Machine solutions, described earlier.

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Research and Development Activities

Our research and development expenses were \$70.6 million, \$85.0 million and \$81.3 million in fiscal 2007, 2006 and 2005, respectively. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop new products and technologies that meet an expanding range of markets and customer requirements. In the development of new products and enhancements to existing products, we use our own development tools extensively.

We have traditionally relied primarily on the internal development of our products. Based on timing and cost considerations, however, we have acquired, and in the future may consider acquiring, technology or products from third parties.

PRODUCT PROTECTION AND TRADEMARKS

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality agreements and procedures to protect our proprietary rights.

We retain the title to and protect the suite of models and software used to develop scoring models as a trade secret. We also restrict access to our source code and limit access to and distribution of our software, documentation and other proprietary information. We have generally relied upon the laws protecting trade secrets and upon contractual nondisclosure safeguards and restrictions on transferability to protect our software and proprietary interests in our product and service methodology and know-how. Our confidentiality procedures include invention assignment and proprietary information agreements with our employees and independent contractors, and nondisclosure agreements with our distributors, strategic partners and customers. We also claim copyright protection for certain proprietary software and documentation.

We have patents on many of our technologies and have patent applications pending on other technologies. The patents we hold may not be upheld as valid and may not prevent the development of competitive products. In addition, patents may never be issued on our pending patent applications or on any future applications that we may submit. We currently hold 50 U.S. and 11 foreign patents with 146 applications pending.

Despite our precautions, it may be possible for competitors or users to copy or reproduce aspects of our software or to obtain information that we regard as trade secrets. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Patents and other protections for our intellectual property are important, but we believe our success and growth will depend principally on such factors as the knowledge, ability, experience and creative skills of our personnel, new products, frequent product enhancements and name recognition.

We have developed technologies for research projects conducted under agreements with various United States government agencies or their subcontractors. Although we have acquired commercial rights to these technologies, the United States government typically retains ownership of intellectual property rights and licenses in the technologies that we develop under these contracts. In some cases, the United States government can terminate our rights to these technologies if we fail to commercialize them on a timely basis. In addition, under United States government contracts, the government may make the results of our research public, which could limit our competitive advantage with respect to future products based on funded research.

We have used, registered and/or applied to register certain trademarks and service marks for our technologies, products and services. We currently have 41 trademarks registered in the U.S. and select foreign countries.

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PERSONNEL

As of September 30, 2007, we employed 2,824 persons worldwide. Of these, 444 full-time employees were located in our Minneapolis and Arden Hills, Minnesota offices, 382 full-time employees were located in our San Rafael, California office, 408 full-time employees were located in our San Diego, California office, 250 full-time employees were located in our India-based office and 235 full-time employees were located in our United Kingdom-based offices. None of our employees is covered by a collective bargaining agreement, and no work stoppages have been experienced.

Information regarding our officers is included in Executive Officers of the Registrant at the end of Part I of this report.

Item 1A. Risk Factors

Risks Related to Our Business

We have expanded the pursuit of our EDM strategy, and we may not be successful, which could cause our growth prospects and results of operations to suffer.

We have expanded the pursuit of our business objective to become a leader in helping businesses automate and improve decisions across their enterprises, an approach that we commonly refer to as Enterprise Decision Management, or EDM. Our EDM strategy is designed to enable us to increase our business by selling multiple products to clients, as well as to enable the development of custom client solutions that may lead to opportunities to develop new proprietary scores or other new proprietary products. The market may be unreceptive to this general EDM business approach, including being unreceptive to purchasing multiple products from us or unreceptive to our customized solutions. If our EDM strategy is not successful, we may not be able to grow our business, growth may occur more slowly than we anticipate or our revenues and profits may decline.

In mid-2006, we restructured the method by which we sell our products and services, and if this sales strategy is not successful, our business will be harmed.

We previously sold our products and services in a product-focused manner. As part of our expanded EDM strategy, in mid-2006, we changed our sales model to sell our products and services using a client-centric approach which focuses on delivering complete solutions involving multiple products or suites of products for our customers through various means, including the use of client teams called Integrated Client Networks (or ICNs) that focus on customers by vertical market and geography, and the use of an integrated consulting and sales approach. If our employees are not able to adjust rapidly enough to this ICN approach, then we may be unable to maintain or increase our revenues. Further, there can be no assurance that our customers and potential customers will react positively to EDM or this new selling approach and, as a result, that we will continue to maintain or increase revenues. If revenues eventually increase as a result of this change, there is no assurance that any increase will occur as quickly as we might anticipate.

We derive a substantial portion of our revenues from a small number of products and services, and if the market does not continue to accept these products and services, our revenues will decline.

As we implement our EDM strategy, we expect that revenues derived from our scoring solutions, account management solutions, fraud solutions, originations, collections and insurance solutions products and services will continue to account for a substantial portion of our total revenues for the foreseeable future. Our revenues will decline if the market does not continue to accept these products and services. Factors that might affect the market acceptance of these products and services include the following:

changes in the business analytics industry;

changes in technology;

our inability to obtain or use state fee schedule or claims data in our insurance products;

saturation of market demand;

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loss of key customers;

industry consolidation;

failure to execute our client-centric selling approach; and

inability to successfully sell our products in new vertical markets.

If we are unable to access new markets or develop new distribution channels, our business and growth prospects could suffer.

We expect that part of the growth that we seek to achieve through our EDM strategy will be derived from the sale of EDM products and service solutions in industries and markets we do not currently serve. We also expect to grow our business by delivering our EDM solutions through additional distribution channels. If we fail to penetrate these industries and markets to the degree we anticipate utilizing our EDM strategy, or if we fail to develop additional distribution channels, we may not be able to grow our business, growth may occur more slowly than we anticipate or our revenues and profits may decline.

If we are unable to develop successful new products or if we experience defects, failures and delays associated with the introduction of new products, our business could suffer serious harm.

Our growth and the success of our EDM strategy depends upon our ability to develop and sell new products or suites of products. If we are unable to develop new products, or if we are not successful in introducing new products, we may not be able to grow our business, or growth may occur more slowly than we anticipate. In addition, significant undetected errors or delays in new products or new versions of products may affect market acceptance of our products and could harm our business, financial condition or results of operations. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or bugs in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could result in rejection of our products, damage to our reputation, loss of revenues, diversion of development resources, an increase in product liability claims, and increases in service and support costs and warranty claims.

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. If the terms of these relationships change, our revenues and operating results could decline.

Most of our customers are relatively large enterprises, such as banks, credit card processors, insurance companies, healthcare firms, retailers and telecommunications carriers. As a result, many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms.

We also derive a substantial portion of our revenues and operating income from our contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian, and other parties that distribute our products to certain markets. We are also currently involved in litigation with TransUnion, Equifax and Experian arising from their development and marketing of a credit scoring product competitive with our products. We have asserted various

claims, including unfair competition, antitrust, and trade secret misappropriation against each of the credit reporting agencies and their collective joint venture entity, VantageScore, LLC. This litigation could have a material adverse effect on our relationship with one or more of the major credit reporting agencies, or with major customers.

The loss of or a significant change in a relationship with a major customer, the loss of or a significant change in a relationship with one of the major credit reporting agencies with respect to their distribution of our products or with respect to our myFICO® offerings, the loss of or a significant change in a relationship with a significant third-

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party distributor or the delay of significant revenues from these sources, could have a material adverse effect on our revenues and results of operations.

We rely on relationships with third parties for marketing, distribution and certain services. If we experience difficulties in these relationships, our future revenues may be adversely affected.

Our Scoring Solutions segment and Strategy Machine Solutions segment rely on distributors, and we intend to continue to market and distribute our products through existing and future distributor relationships. Our Scoring Solutions segment relies on, among others, TransUnion, Equifax and Experian. Failure of our existing and future distributors to generate significant revenues, demands by such distributors to change the terms on which they offer our products or our failure to establish additional distribution or sales and marketing alliances could have a material adverse effect on our business, operating results and financial condition. In addition, certain of our distributors presently compete with us and may compete with us in the future either by developing competitive products themselves or by distributing competitive offerings. For example, TransUnion, Equifax and Experian have developed a credit scoring product to compete directly with our products and are collectively attempting to sell the product. Competition from distributors or other sales and marketing partners could significantly harm sales of our products and services.

If we do not engage in acquisition activity to the extent we have in the past, we may be unable to increase our revenues at historical growth rates.

Our historical revenue growth has been augmented by numerous acquisitions, and we anticipate that acquisitions may continue to be an important part of our revenue growth. Our future revenue growth rate may decline if we do not make acquisitions of similar size and at a comparable rate as in the past.

If we engage in acquisitions, significant investments in new businesses, or divestitures of existing businesses, we will incur a variety of risks, any of which may adversely affect our business.

We have made in the past, and may make in the future, acquisitions of, or significant investments in, businesses that offer complementary products, services and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses, which may include:

- failure to achieve the financial and strategic goals for the acquired and combined business;
- overpayment for the acquired companies or assets;
- difficulty assimilating the operations and personnel of the acquired businesses;
- product liability and other exposure associated with acquired businesses or the sale of their products;
- disruption of our ongoing business;
- dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- retention of key personnel;
- distraction of management from our ongoing business; and

impairment of relationships with employees and customers as a result of integration of new management personnel.

We have also divested ourselves of businesses in the past and may do so again in the future. Any divestitures will be accompanied by the risks commonly encountered in the sale of businesses, which may include:

disruption of our ongoing business;

reductions of our revenues or earnings per share;

unanticipated liabilities, legal risks and costs;

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the potential loss of key personnel;

distraction of management from our ongoing business; and

impairment of relationships with employees and customers as a result of migrating a business to new owners.

These risks could harm our business, financial condition or results of operations, particularly if they occur in the context of a significant acquisition. Acquisitions of businesses having a significant presence outside the U.S. will increase our exposure to the risks of conducting operations in international markets.

The occurrence of certain negative events may cause fluctuations in our stock price.

The market price of our common stock may be volatile and could be subject to wide fluctuations due to a number of factors, including variations in our revenues and operating results. We believe that you should not rely on period-to-period comparisons of financial results as an indication of future performance. Because many of our operating expenses are fixed and will not be affected by short-term fluctuations in revenues, short-term fluctuations in revenues may significantly impact operating results. Additional factors that may cause our stock price to fluctuate include the following:

variability in demand from our existing customers;

failure to meet the expectations of market analysts;

changes in recommendations by market analysts;

the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increases the likelihood of short-term fluctuation in revenues;

consumer dissatisfaction with, or problems caused by, the performance of our products;

the timing of new product announcements and introductions in comparison with our competitors;

the level of our operating expenses;

changes in competitive conditions in the consumer credit, financial services and insurance industries;

fluctuations in domestic and international economic conditions;

our ability to complete large installations on schedule and within budget;

acquisition-related expenses and charges; and

timing of orders for and deliveries of software systems.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the stock prices of many technology companies, and these fluctuations sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions may adversely affect the market price of our common stock.

Our products have long and variable sales cycles. If we do not accurately predict these cycles, we may not forecast our financial results accurately, and our stock price could be adversely affected.

We experience difficulty in forecasting our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales will occur. In addition, our ICN selling approach is more complex than our prior sales approach because it emphasizes the sale of complete EDM solutions involving multiple products or services across our customers' organizations. This makes forecasting of revenues in any given period more difficult. As a result of our ICN approach and lengthening sales cycles, revenues and operating results may vary significantly from period to period. For example, the sales cycle for licensing our products typically ranges from 60 days to 18 months. Customers are often cautious in making decisions to acquire our products, because purchasing our products typically involves a significant commitment of capital, and may involve shifts by the customer to a new software and/or hardware platform or changes in the customer's operational procedures. Since our EDM strategy contemplates the sale of multiple decision solutions to a customer, expenditures by any

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given customer are expected to be larger than with our prior sales approach. This may cause customers to make purchasing decisions more cautiously. Delays in completing sales can arise while customers complete their internal procedures to approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur and experience fluctuations in our revenues and operating results. If we are unable to accurately forecast our revenues, our stock price could be adversely affected.

We typically have revenue-generating transactions concentrated in the final weeks of a quarter, which may prevent accurate forecasting of our financial results and cause our stock price to decline.

Large portions of our software license agreements are consummated in the weeks immediately preceding quarter end. Before these agreements are consummated, we create and rely on forecasted revenues for planning, modeling and earnings guidance. Forecasts, however, are only estimates and actual results may vary for a particular quarter or longer periods of time. Consequently, significant discrepancies between actual and forecasted results could limit our ability to plan, budget or provide accurate guidance, which could adversely affect our stock price. Any publicly-stated revenue or earnings projections are subject to this risk.

The failure to recruit and retain additional qualified personnel could hinder our ability to successfully manage our business.

Our EDM strategy and our future success will depend in large part on our ability to attract and retain experienced sales, consulting, research and development, marketing, technical support and management personnel. The complexity of our products requires highly trained customer service and technical support personnel to assist customers with product installation and deployment. The labor market for these individuals is very competitive due to the limited number of people available with the necessary technical skills and understanding and may become more competitive with general market and economic improvement. We cannot be certain that our compensation strategies will be perceived as competitive by current or prospective employees. This could impair our ability to recruit and retain personnel. We have experienced difficulty in recruiting qualified personnel, especially technical, sales and consulting personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit skilled technical professionals from other countries to work in the United States. Limitations imposed by immigration laws in the United States and abroad and the availability of visas in the countries where we do business could hinder our ability to attract necessary qualified personnel and harm our business and future operating results. There is a risk that even if we invest significant resources in attempting to attract, train and retain qualified personnel, we will not succeed in our efforts, and our business could be harmed. Nonappreciation in the value of our stock may adversely affect our ability to use equity and equity based incentive plans to attract and retain personnel, and may require us to use alternative and more expensive forms of compensation for this purpose.

The failure to obtain certain forms of model construction data from our customers or others could harm our business.

We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our products. In most cases, these data must be periodically updated and refreshed to enable our products to continue to work effectively in a changing environment. We do not own or control much of the data that we require, most of which is collected privately and maintained in proprietary databases. Customers and key business alliances provide us with the data we require to analyze transactions, report results and build new models. Our EDM strategy depends in part upon our ability to access new forms of data to develop custom and proprietary analytic tools. If we fail to maintain sufficient data sourcing relationships with our customers and business alliances, or if they decline to provide such data due to legal privacy concerns, competition concerns, prohibitions or a lack of permission from their customers, we could lose access to required data and our products, and the development of new products might become less effective. In addition, certain of our insurance solutions products use data from state

workers' compensation fee schedules adopted by state regulatory agencies. Third parties have asserted copyright interests in these data, and these assertions, if successful, could prevent us from using these data. Any interruption of our supply of data could seriously harm our business, financial condition or results of operations.

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We will continue to rely upon proprietary technology rights, and if we are unable to protect them, our business could be harmed.

Our success depends, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, patent, trade secret, and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. This protection of our proprietary technology is limited, and our proprietary technology could be used by others without our consent. In addition, patents may not be issued with respect to our pending or future patent applications, and our patents may not be upheld as valid or may not prevent the development of competitive products. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. There can be no assurance that our protection of our intellectual property rights in the United States or abroad will be adequate or that others, including our competitors, will not use our proprietary technology without our consent. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could harm our business, financial condition or results of operations.

Some of our technologies were developed under research projects conducted under agreements with various U.S. government agencies or subcontractors. Although we have commercial rights to these technologies, the U.S. government typically retains ownership of intellectual property rights and licenses in the technologies developed by us under these contracts, and in some cases can terminate our rights in these technologies if we fail to commercialize them on a timely basis. Under these contracts with the U.S. government, the results of research may be made public by the government, limiting our competitive advantage with respect to future products based on our research.

If we are subject to infringement claims, it could harm our business.

We expect that products in the industry segments in which we compete, including software products, will increasingly be subject to claims of patent and other intellectual property infringement as the number of products and competitors in our industry segments grow. We may need to defend claims that our products infringe intellectual property rights, and as a result we may:

incur significant defense costs or substantial damages;

be required to cease the use or sale of infringing products;

expend significant resources to develop or license a substitute noninfringing technology;

discontinue the use of some technology; or

be required to obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available or might require substantial royalties or license fees that would reduce our margins.

Breaches of security, or the perception that e-commerce is not secure, could harm our business.

Our business requires the appropriate and secure utilization of consumer and other sensitive information. Internet-based electronic commerce requires the secure transmission of confidential information over public networks, and several of our products are accessed through the Internet, including our consumer services accessible through the www.myfico.com website. Security breaches in connection with the delivery of our products and services, including

products and services utilizing the Internet, or well-publicized security breaches, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting the networks that access our net-sourced products, consumer services and proprietary database information.

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Protection from system interruptions is important to our business. If we experience a sustained interruption of our telecommunication systems, it could harm our business.

Systems or network interruptions could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue. These interruptions can include fires, floods, earthquakes, power losses, equipment failures and other events beyond our control.

Risks Related to Our Industry

Our ability to increase our revenues will depend to some extent upon introducing new products and services. If the marketplace does not accept these new products and services, our revenues may decline.

We have a significant share of the available market in portions of our Scoring Solutions segment and for certain services in our Strategy Machine Solutions segment, specifically, the markets for account management services at credit card processors and credit card fraud detection software. To increase our revenues, we must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. We believe much of the future growth of our business and the success of our EDM strategy will rest on our ability to continue to expand into newer markets for our products and services, such as direct marketing, healthcare, insurance, small business lending, retail, telecommunications, personal credit management, the design of business strategies using Strategy Science technology and Internet services. These areas are relatively new to our product development and sales and marketing personnel. Products that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, our revenues will decrease.

If we fail to keep up with rapidly changing technologies, our products could become less competitive or obsolete.

In our markets, technology changes rapidly, and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. If we fail to enhance our current products and develop new products in response to changes in technology or industry standards, or if we fail to bring product enhancements or new product developments to market quickly enough, our products could rapidly become less competitive or obsolete. For example, the rapid growth of the Internet environment creates new opportunities, risks and uncertainties for businesses, such as ours, which develop software that must also be designed to operate in Internet, intranet and other online environments. Our future success will depend, in part, upon our ability to:

- innovate by internally developing new and competitive technologies;

- use leading third-party technologies effectively;

- continue to develop our technical expertise;

- anticipate and effectively respond to changing customer needs;

- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and

- influence and respond to emerging industry standards and other technological changes.

If our competitors introduce new products and pricing strategies, it could decrease our product sales and market share, or could pressure us to reduce our product prices in a manner that reduces our margins.

We may not be able to compete successfully against our competitors, and this inability could impair our capacity to sell our products. The market for business analytics is new, rapidly evolving and highly competitive, and

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we expect competition in this market to persist and intensify. Our regional and global competitors vary in size and in the scope of the products and services they offer, and include:

in-house analytic and systems developers;

scoring model builders;

enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;

business intelligence solutions providers;

credit report and credit score providers;

business process management solution providers;

process modeling tools providers;

automated application processing services providers;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

account/workflow management software providers;

managed care organizations; and

software tools companies supplying modeling, rules, or analytic development tools.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph, smart cards, cardholder verification and authentication solutions and other card authorization techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do, and industry consolidation is creating even larger competitors in many of our markets. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop, promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances among competitors may emerge and rapidly gain significant market share. For example, TransUnion, Equifax and Experian have formed an alliance that has developed a credit scoring product competitive with our products. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

Our competitors may be able to sell products competitive to ours at lower prices individually or as part of integrated suites of several related products. This ability may cause our customers to purchase products that directly compete with our products from our competitors. Price reductions by our competitors could negatively impact our margins, and

could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

Legislation that is enacted by the U.S. Congress, the states, Canadian provinces, and other countries, and government regulations that apply to us or to our customers may expose us to liability, affect our ability to compete in certain markets, limit the profitability of or demand for our products, or render our products obsolete. If these laws and regulations require us to change our current products and services, it could adversely affect our business and results of operations.

Legislation and governmental regulation affect how our business is conducted and, in some cases, subject us to the possibility of future lawsuits arising from our products and services. Globally, legislation and governmental

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regulation also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Both our core businesses and our newer initiatives are affected globally by federal, regional, provincial, state and other jurisdictional regulations, including those in the following significant regulatory areas:

Use of data by creditors and consumer reporting agencies. Examples in the U.S. include the Fair Credit Reporting Act (FCRA), the Fair and Accurate Credit Transactions Act (FACTA), which amends FCRA, and certain proposed regulations and studies mandated by FACTA, under consideration;

Laws and regulations that limit the use of credit scoring models such as state mortgage trigger laws, state inquiries laws, state insurance restrictions on the use of credit based insurance scores, and the Consumer Credit Directive in the European Union.

Fair lending practices, such as the Equal Credit Opportunity Act (ECOA) and Regulation B.

Privacy and security laws and regulations that limit the use and disclosure of personally identifiable information or require security procedures, including but not limited to the provisions of the Financial Services Modernization Act of 1999, also known as the Gramm Leach Bliley Act (GLBA); FACTA; the Health Insurance Portability and Accountability Act of 1996 (HIPAA); the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act); identity theft, file freezing, security breach notification and similar state privacy laws;

Extension of credit to consumers through the Electronic Fund Transfers Act, as well as nongovernmental VISA and MasterCard electronic payment standards;

Regulations applicable to secondary market participants such as Fannie Mae and Freddie Mac that could have an impact on our products;

Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;

The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, and credit repair;

Laws and regulations applicable to operations in other countries, for example, the European Union's Privacy Directive and the Foreign Corrupt Practices Act; and

Sarbanes-Oxley Act (SOX) requirements to maintain and verify internal process controls, including controls for material event awareness and notification.

In making credit evaluations of consumers, or in performing fraud screening or user authentication, our customers are subject to requirements of multiple jurisdictions, which may impose onerous and contradictory requirements. Privacy legislation such as GLBA or the European Union's Privacy Directive may also affect the nature and extent of the products or services that we can provide to customers, as well as our ability to collect, monitor and disseminate information subject to privacy protection. In addition to existing regulation, changes in legislative, judicial, regulatory or consumer environments could harm our business, financial condition or results of operations. These regulations and amendments to them could affect the demand for or profitability of some of our products, including scoring and consumer products. New regulations pertaining to financial institutions could cause them to pursue new strategies, reducing the demand for our products. In addition, legislative reforms of workers' compensation laws that aim to

simplify this area of regulation and curb abuses could diminish the need for, and the benefits provided by, certain of our insurance solutions products and services.

Our revenues depend, to a great extent, upon conditions in the consumer credit, financial services and insurance industries. If any of our clients industries experiences a downturn, it could harm our business, financial condition or results of operations.

During fiscal 2007, 74% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other

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factors, could harm our business, financial condition or results of operations. While the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional customers have merged and consolidated in recent years, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by selling and cross-selling our products and services to large banks and other credit issuers. As this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services that support customer acquisition programs of our customers. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. There can be no assurance that we will be able effectively to promote future revenue growth in our businesses.

While we are expanding our sales of consumer credit, financial services and insurance products and services into international markets, the risks are greater as we are less well-known, and some of these markets are in their infancy.

Risk Related to External Conditions

If any of a number of material adverse developments occurs in general economic conditions and world events, such developments could affect demand for our products and services and harm our business.

Purchases of technology products and services and decisioning solutions are subject to adverse economic conditions. When an economy is struggling, companies in many industries delay or reduce technology purchases, and we experience softened demand for our decisioning solutions and other products and services. If the current improvement in global economic conditions slows or reverses, or if there is an escalation in regional or continued global conflicts or terrorism, we may experience reductions in capital expenditures by our customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition, which may adversely affect our business and results of operations.

In operations outside the United States, we are subject to unique risks that may harm our business, financial condition or results of operations.

A growing portion of our revenues is derived from international sales. During fiscal 2007, 29% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States, including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

general economic and political conditions in countries where we sell our products and services;

difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;

effects of a variety of foreign laws and regulations, including restrictions on access to personal information;

import and export licensing requirements;

longer payment cycles;

reduced protection for intellectual property rights;

currency fluctuations;

changes in tariffs and other trade barriers; and

difficulties and delays in translating products and related documentation into foreign languages.

There can be no assurance that we will be able to successfully address each of these challenges in the near term. Additionally, some of our business will be conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses are not currently material to our cash flows, financial position or results of operations.

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However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

In addition to the risk of depending on international sales, we have risks incurred in having research and development personnel located in various international locations. We currently have a substantial portion of our product development staff in international locations, some of which have political and developmental risks. If such risks materialize, our business could be damaged.

Our antitakeover defenses could make it difficult for another company to acquire control of Fair Isaac, thereby limiting the demand for our securities by certain types of purchasers or the price investors are willing to pay for our stock.

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include adopting a Shareholder Rights Agreement, commonly known as a poison pill, and giving our board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, a majority of our outstanding voting stock. These factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in control or changes in our management, including transactions in which our stockholders might otherwise receive a premium over the fair market value of our common stock.

If we experience changes in tax laws or adverse outcomes resulting from examination of our income tax returns, it could adversely affect our results of operations.

We are subject to federal and state income taxes in the United States and in certain foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. Our future effective tax rates could be adversely affected by changes in tax laws, by our ability to generate taxable income in foreign jurisdictions in order to utilize foreign tax losses, and by the valuation of our deferred tax assets. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from such examinations will not have an adverse effect on our operating results and financial condition.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Our properties consist primarily of leased office facilities for sales, data processing, research and development, consulting and administrative personnel. Our principal office is located in Minneapolis, Minnesota.

Our leased properties include:

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approximately 243,000 square feet of office, data center, and data processing space in Arden Hills and Minneapolis, Minnesota, in six buildings under leases expiring in 2011 or later; 66,000 square feet of this space is subleased to a third party;

approximately 245,000 square feet of office space in San Rafael, California in two buildings under leases expiring in 2012 or later; 47,000 square feet of this space is subleased to a third party;

approximately 130,000 square feet of office space in San Diego, California in one building under a lease expiring in 2010; and

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an aggregate of approximately 518,000 square feet of office and data center space in; Arlington, VA; Atlanta, GA; Austin, TX; Bangalore, India; Beijing, China; Birmingham, United Kingdom; Boston, MA; Chicago, IL; Coppell, TX; Cranbury, NJ; Davis, CA; Emeryville, CA; Hong Kong, China; Gauteng, Malaysia; Indianapolis, IN; Irvine, CA; London, United Kingdom; Madrid, Spain; Melbourne, Australia; New Castle, DE; New York, NY; Norcross, GA; Oakbrook Terrace, IL; San Jose, CA; Sao Paulo, Brazil; Sarasota, FL; Seoul, Korea; Shanghai, China; Sherborn, MA; Singapore, Singapore; Sydney, Australia; Tokyo, Japan; Toronto, Canada; Tulsa, OK; Wellsbourne, United Kingdom; Westminster, CO; and White Marsh, MD.

See Note 18 to the accompanying consolidated financial statements for information regarding our obligations under leases. We believe that suitable additional space will be available to accommodate future needs.

Item 3. Legal Proceedings

We were a defendant in a lawsuit captioned as Robbie Hillis v. Equifax Consumer Services, Inc. and Fair Isaac, Inc., filed in the U.S. District Court for the Northern District of Georgia. The plaintiff claimed that the defendants jointly sold the Score Power® credit score product in violation of certain procedural requirements under the Credit Repair Organizations Act (CROA), and in violation of the antifraud provisions of that statute. On June 13, 2007, the Court granted final approval of a settlement agreed to by the parties and directed that final judgment be entered. An appeal was filed on July 11, 2007. The appeal was dismissed, and the settlement agreement is final.

We were a defendant in a lawsuit captioned as Christy Slack v. Fair Isaac Corporation and MyFICO Consumer Services, Inc., which was filed in the United States District Court for the Northern District of California. As in the Hillis matter, the plaintiff is claiming that the defendants violated certain procedural requirements of CROA, and violated the antifraud provisions of CROA, with respect to the sale of credit score products on our myfico.com website. This matter was covered by the settlement agreement in the Robbie Hillis lawsuit, as described above.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our current executive officers are as follows:

Name	Positions Held	Age
Mark N. Greene	February 2007-present, Chief Executive Officer of the Company. 1995-2007, various executive positions at IBM Corporation including Vice President, Financial Services-Sales and Distribution, General Manager, Global Banking Industry-Sales and Distribution, Vice President, Financial Services Strategy and Solutions-Sales and Distribution, Vice President, SecureWay-Software Group, and Vice President, Electronic Commerce-Software Group. 1993-1994, Vice President and Practice Area Leader-Capital Markets, Technology Solutions Company. 1989-1992, Senior Vice President, Trading Products and Consulting, Berkeley Investment Technologies. 1987-1989, Director, Fixed Income Products, CitiCorp. 1982-1986, various positions at the Federal Reserve Board.	53

Michael H. Campbell	August 2007-present, Executive Vice President, Chief Operating Officer of the Company. July 2006-July 2007, Vice President ICN Leader Financial Services of the Company. April 2005-July 2006, Vice President, Chief Operating Officer, Products of the Company. 2003-2005, CEO of TempoSoft, Inc. 1999-2001, held a variety of senior management positions at SAP America, Inc., including Senior Vice President, Solutions and Marketing Organization, Senior Vice President, Solutions Management Organization, and Senior Vice President, Professional Services Organization. 1989-1999, CEO and Chairman, Campbell Software, Inc. Earlier, he was co-founder of General Optimization, Inc., an optimization software developer.	46
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Name	Positions Held	Age
Richard S. Deal	August 2007-present, Senior Vice President, Chief Human Resources Officer of the Company. January 2001-July 2007, Vice President, Human Resources of the Company. 1998-2001, Vice President, Human Resources, Arcadia Financial, Ltd. 1993-1998, managed broad range of human resources corporate and line consulting functions with U.S. Bancorp.	40
Andrew N. Jennings	October 2007--present, Senior Vice President, Chief Research Officer of the Company. May 2007--September 2007, Vice President, Analytic Research and Development of the Company. May 2006 May 2007, Vice President, EDM Applications of the Company. October 1994 May 2006, various senior management positions of the Company including Vice President of International Operations, Vice President European Operations, Vice President Analytic, Customer Management and Collections Business units. 1991-1994, Head of Credit Risk Management, Abbey National plc. 1987 1991, Head of Credit Risk, Barclaycard, Barclays Bank plc. 1980 1987, Lecturer Economic and Econometrics University of Nottingham.	52
Bernhard Nann	August 2007-present, Senior Vice President, Chief Technology Officer of the Company. March 2007-July 2007, Vice President, Chief Technology Officer of the Company. May 2006-February 2007, Vice President, Product Development, Product Services, ASP Operations and Technology Solutions and Infrastructure of the Company. July 2003-April 2006, variety of senior management positions with the Company including positions in Mortgage Solutions, Collections and Recovery, Customer Management, and Bill Review Services. 1995-June 2003, CEO and co-founder of Narex Inc. (acquired by Fair Isaac). January 1990-January 1996, various management positions at TRW, Inc., including Director of International Operations.	45
Charles M. Osborne	August 2007-present, Executive Vice President, Chief Financial Officer of the Company. March 2007-July 2007, Vice President, Chief Financial Officer of the Company. November 2006-February 2007, Interim Chief Executive Officer and Vice President, Chief Financial Officer of the Company. May 2004-November 2006, Vice President, Chief Financial Officer of the Company. 1999-2003, partner and investor, Gateway Alliance venture capital partnership. July-December 2000, Executive Vice President and CFO, 21 North Main, Inc. March 2000-present, Interim CFO and Vice President, Finance, University of Minnesota Foundation. 1998-2000, various executive positions with McLeod USA/Ovation Communications, including Vice President, Corporate, General Manager and Chief Financial Officer. April 1997-May 1998, President and Chief Operating Officer, Graco Inc. 1981-1997, various senior financial executive positions with Deluxe Corporation, including Senior Vice President and CFO and Vice President, Finance. 1975-1981, various accounting positions with Deloitte & Touche LLP.	54
Michael J. Pung	August 2004-present, Vice President, Finance of the Company. 2000-August 2004, Vice President and Controller, Hubbard Media Group, LLC. 1999-2000, Controller, Capella Education, Inc. 1998-1999, Controller, U.S. Satellite Broadcasting, Inc. 1992-1998, various financial management positions with Deluxe Corporation. 1985-1992, various audit positions, including audit manager, at Deloitte & Touche LLP.	44

Mark R. Scadina

June 2007-present, Senior Vice President and General Counsel and Corp Secretary of the Company. 2003-2007, various senior positions including Executive Vice President, General Counsel and Corporate Secretary of Liberate Technologies, Inc. 1999-2003, various senior positions including Vice President and General Counsel of Intertrust Technologies Corporation. 1994-1999, Associate at Pennie and Edmonds LLP.

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Name	Positions Held	Age
Tracey H. Stout	September 2007-present, Senior Vice President and Chief Marketing Officer of the Company. 2003-2007, Vice President, Worldwide Marketing at Autodesk, Inc. 1996-2002, executive positions at Sun Microsystems Computer Company including Vice President, Marketing Java and KML Software and Vice President, Worldwide Brand Marketing. 1992-1996, Vice President, Account Director at Saatchi and Saatchi Advertising. 1981-1991, various Account Management positions at McCann-Erickson, Knoth & Meads Advertising, and Batten, Barton, Durstine & Osborn.	50

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock trades on the New York Stock Exchange under the symbol: FIC. According to records of our transfer agent, at September 30, 2007, we had 495 shareholders of record of our common stock.

The following table shows the high and low closing prices for our stock, as listed on the New York Stock Exchange for each quarter in the last two fiscal years:

	High	Low
Fiscal 2006		
October 1 – December 31, 2005	\$ 48.21	\$ 40.21
January 1 – March 31, 2006	\$ 47.77	\$ 38.77
April 1 – June 30, 2006	\$ 41.11	\$ 34.30
July 1 – September 30, 2006	\$ 37.20	\$ 33.25
Fiscal 2007		
October 1 – December 31, 2006	\$ 42.97	\$ 35.61
January 1 – March 31, 2007	\$ 41.84	\$ 37.45
April 1 – June 30, 2007	\$ 40.83	\$ 34.98
July 1 – September 30, 2007	\$ 40.60	\$ 35.33

Dividends

We paid quarterly dividends of two cents per share, or eight cents per year, during each quarter of fiscal 2007, 2006 and 2005. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

Table of Contents**Issuer Purchases of Equity Securities (1)**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
July 1, 2007 through July 31, 2007	316,500	\$ 39.29	316,500	\$ 205,455,495
August 1, 2007 through August 31, 2007	2,391,750	\$ 37.12	2,391,750	\$ 116,679,052
September 1, 2007 through September 30, 2007	1,802,900	\$ 37.42	1,802,900	\$ 49,210,929
	4,511,150	\$ 37.39	4,511,150	\$ 49,210,929

(1) In November 2007, our Board of Directors approved a new common stock repurchase program that replaces our previous program and allows us to purchase shares of our common stock up to an aggregate cost of \$250.0 million in the open market or through negotiated transactions. The November 2007 program does not have a fixed expiration date.

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Performance Graph

The follow graph shows the total stockholder return of an investment of \$100 in cash on September 30, 2002, in (a) the Company's Common Stock, (b) the Research Data Group Inc. indices for the Standard & Poor's 500 Stocks (U.S. Companies), and (c) the Standard & Poor's 500 Application Software Index, in each case with reinvestment of dividends. These indices relate only to stock prices and do not purport to afford direct comparison of the business or financial performance of the companies. We do not believe there are any publicly traded companies that compete with us across the full spectrum of our product and service offerings.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Fair Issac Corporation, The S&P 500 Index
And the S&P Application Software Index**

* \$100 invested on 9/30/02 in stock or index-including reinvestment of dividends. Fiscal year ending September 30.

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www.researchdatagroup.com/S&P.htm

Table of Contents**Item 6. Selected Financial Data**

We acquired NAREX Inc. (NAREX) in July 2003, Diversified HealthCare Services, Inc. (Diversified HealthCare Services) in September 2003, Seurat Company (Seurat) in October 2003, London Bridge Software Holdings plc (London Bridge) in May 2004, Braun Consulting, Inc. (Braun) in November 2004 and RulesPower, Inc. (RulesPower) in September 2005. Results of operations from these acquisitions are included prospectively from the date of each acquisition. As a result of these acquisitions, the comparability of the data below is impacted.

	Fiscal Years Ended September 30,				
	2007(1)(2)	2006(1)(3)	2005	2004(4)	2003
(In thousands, except per share data)					
Revenues	\$ 822,236	\$ 825,365	\$ 798,671	\$ 706,206	\$ 629,295
Operating income	148,474	152,723	193,011	179,866	174,194
Income before income taxes	149,662	159,192	194,088	168,815	172,140
Net income	104,650	103,486	134,548	102,788	107,157
Earnings per share:					
Basic	\$ 1.87	\$ 1.63	\$ 2.02	\$ 1.47	\$ 1.48
Diluted	\$ 1.82	\$ 1.59	\$ 1.86	\$ 1.31	\$ 1.40
Dividends declared per share	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08

	At September 30,				
	2007	2006	2005	2004	2003
(In thousands)					
Working capital (deficit)	\$ (103,173)	\$ (123,719)	\$ 274,523	\$ 345,785	\$ 569,510
Total assets	1,275,771	1,321,205	1,351,061	1,444,779	1,495,173
Senior convertible notes	390,963	400,000	400,000	400,000	400,000
Convertible subordinated notes, net of discount					141,364
Revolving line of credit	170,000				
Stockholders' equity	566,314	770,028	805,094	916,471	849,542

- (1) Results of operations for fiscal 2007 and 2006 include pre-tax share-based compensation expense of \$36.3 million and \$42.1 million respectively, after our adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on October 1, 2005.
- (2) Results of operations for fiscal 2007 include pre-tax charges of \$2.5 million in restructuring and acquisition-related expenses and a \$1.5 million gain on the sale of product line assets.
- (3) Results of operations for fiscal 2006 include \$19.7 million in restructuring and other acquisition related pre-tax charges.
- (4) Results of operations for fiscal 2004 include an \$11.1 million pre-tax loss on redemption of our convertible subordinated notes.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

RESULTS OF OPERATIONS

Overview

We are a leader in Enterprise Decision Management (EDM) solutions that enable businesses to automate, improve and connect decisions to enhance business performance. Our predictive analytics and decision management systems power hundreds of billions of customer decisions each year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations, pharmaceutical and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure in the United States of credit risk, empowering them to manage their financial health.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the year ended September 30, 2007, 74% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications, retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from transactional or unit-based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and customer management activity; workers' compensation and automobile medical injury insurance claims; and wireless and wireline calls and subscriber levels. Approximately 75% of our revenues during fiscal 2007 were derived from arrangements with transactional or unit-based pricing. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms, non-recurring professional service arrangements and gain-share arrangements where revenue is derived based on percentages of client revenue growth or cost reductions attributable to our products.

Within a number of our sectors there has been a sizable amount of industry consolidation. In addition, many of our sectors are experiencing increased levels of competition. As a result of these factors, we believe that future revenues in particular sectors may decline. However, due to the long-term customer arrangements we have with many of our customers, the near-term impact of these declines may be more limited in certain sectors.

One measure used by management as an indicator of our business performance is the volume of bookings achieved. We define a booking as estimated future contractual revenues, including agreements with perpetual, multi-year and annual terms. Bookings values may include: (i) estimates of variable fee components such as hours to be incurred under new professional services arrangements and customer account or transaction activity for agreements with transactional-based fee arrangements; (ii) additional or expanded business from renewals of contracts; and (iii) to a lesser extent, previous customers that have attrited and been resold only as a result of a significant sales effort. In the fourth quarter of fiscal 2007, we achieved bookings of \$94.5 million, including five deals with bookings values of \$3.0 million or more. In comparison, bookings in the fourth quarter of fiscal 2006 were \$112.6 million, including nine deals with bookings values of \$3.0 million or more.

Management regards the volume of bookings achieved, among other factors, as an important indicator of future revenues, but they are not comparable to, nor should they be substituted for, an analysis of our revenues, and they are subject to a number of risks and uncertainties, including those described in Item 1A Risk Factors , above, concerning timing and contingencies affecting product delivery and performance. Although many of our contracts have fixed noncancelable terms, some of our contracts are terminable by the client on short notice or without notice.

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Accordingly, we do not believe it is appropriate to characterize all of our bookings as backlog that will generate future revenue.

Our revenues derived from clients outside the United States continue to grow, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled \$240.5 million, \$230.2 million and \$201.5 million in fiscal 2007, 2006 and 2005, respectively, representing 29%, 28% and 25% of total consolidated revenues in each of these years. In addition to clients acquired via our acquisitions, we believe that our international growth is a product of successful relationships with third parties that assist in international sales efforts and our own increased sales focus internationally, and we expect that the percentage of our revenues derived from international clients will increase in the future.

In March 2007, we sold the assets and products associated with our mortgage banking solutions product line, which was included in the Strategy Machines Solutions segment, for \$15.8 million in cash. We recognized a \$1.5 million pre-tax gain, but a \$0.4 million after-tax loss on the sale due to goodwill associated with the product line that was not deductible for income tax purposes. For fiscal 2007 and 2006, we recorded revenues from the mortgage banking solutions product line of \$7.7 million and \$19.9 million, respectively. The earnings contribution from the mortgage banking solutions product line was not significant to our fiscal 2007 or fiscal 2006 results of operations.

Our reportable segments are: Strategy Machine Solutions, Scoring Solutions, Professional Services and Analytic Software Tools. Although we sell solutions and services into a large number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the years ended September 30, 2007, 2006 and 2005 are set forth in Note 17 to the accompanying consolidated financial statements.

Revenues

The following tables set forth certain summary information on a segment basis related to our revenues for the fiscal years indicated.

Segment	Revenues			Period-to-Period Change	
	Fiscal Year		2005	2007	2006
	2007	2006		to	to
	(In thousands)			(In thousands)	
Strategy Machine Solutions	\$ 439,273	\$ 453,232	\$ 449,139	\$ (13,959)	\$ 4,093
Scoring Solutions	180,444	177,152	167,270	3,292	9,882
Professional Services	151,086	149,250	134,231	1,836	15,019
Analytic Software Tools	51,433	45,731	48,031	5,702	(2,300)
Total Revenues	\$ 822,236	\$ 825,365	\$ 798,671	(3,129)	26,694

**Period-to-Period
Percentage**

Segment	Percentage of Revenues			Change	
	Fiscal Year			2007	2006
	2007	2006	2005	to	to
				2006	2005
Strategy Machine Solutions	54%	55%	56%	(3)%	1%
Scoring Solutions	22%	21%	21%	2%	6%
Professional Services	18%	18%	17%	1%	11%
Analytic Software Tools	6%	6%	6%	12%	(5)%
Total Revenues	100%	100%	100%		3%

Table of Contents***Fiscal 2007 Revenues Compared to Fiscal 2006 Revenues***

Strategy Machine Solutions segment revenues decreased \$14.0 million due partially to the sale of our *mortgage banking solutions* product line, which resulted in a \$10.9 million decline in segment revenues. In addition, segment revenues declined due to a \$5.5 million decrease in revenues from our *customer management solutions*, a \$5.5 million decrease in revenues from our *originations solutions*, a \$4.0 million decrease in revenues from our *insurance and healthcare solutions* and a \$0.5 million decrease in revenues from our other strategy machine solutions. The revenue decrease was partially offset by a \$9.5 million increase in revenues from our *collection and recovery solutions*, a \$1.6 million increase in revenues from our *consumer solutions* and a \$1.3 million increase in revenues from our *fraud solutions*.

The decrease in *customer management solutions* revenues was the result of a decline in transactional-based revenues due to the loss of volumes from a significant customer, which resulted from industry consolidation. The decrease in *originations solutions* revenues was the result of a decline in transactional-based revenues, unfavorable pricing on a renewed customer contract and, to a lesser extent, a reduction in sales of software licenses. The decrease in *insurance and healthcare solutions* revenues was attributable primarily to a decline in bill review volumes associated with our existing customer base and loss of customer accounts. The increase in *collections and recovery solutions* revenues was attributable primarily to several large license sales and increased volumes associated with transactional-based agreements. The large license sales resulted from successful international sales efforts. The increase in *consumer solutions* revenues was attributable to increases in revenues derived from myfico.com and our strategic alliance partners. The increase in *fraud solutions* revenues was attributable primarily due to increased volumes associated with transactional-based agreements. However, we have experienced a delay in a product upgrade, which impacted current year bookings and revenues and may continue to impact *fraud solutions* bookings and revenues in future periods.

Scoring Solutions segment revenues increased \$3.3 million primarily due an increase in revenues derived from risk scoring services at the credit reporting agencies. We also had an increase in revenues derived from our FICO® Expansion® score product, which provides scores on U.S. consumers who do not have traditional FICO® scores because they do not have a sufficient number of credit accounts being reported to the credit reporting agencies. The revenue increase was partially offset by a decline in revenues derived from our own prescreening and account management services sold directly to users, which resulted from increased pricing pressures and an unfavorable impact on pricing from the merger of two customers. We expect that continued pricing and competitive pressures will adversely affect segment revenues in fiscal 2008.

During fiscal 2007 and 2006, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 19% and 18%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased \$1.8 million from consulting and implementation services for customer management products, for services to develop predictive models for a large customer and implementation services for Blaze Advisor. The increase was partially offset by a decline in implementation services for our collection and recovery products and fraud products and a decline in industry consulting services. The decline in implementation services for fraud products was partially the result of a delay in a product upgrade.

Analytic Software Tools segment revenues increased \$5.7 million primarily due to an increase in sales of perpetual and term licenses of Blaze Advisor and to a lesser extent sales of Model Builder software applications. This increase reflects a larger number of Blaze Advisor license sales that exceeded \$1.0 million in the United States and EMEA region. The increase in revenues was also partially the result of higher maintenance revenues, which resulted from the overall growth in our installed base of Blaze Advisor.

Fiscal 2006 Revenues Compared to Fiscal 2005 Revenues

Strategy Machine Solutions segment revenues increased \$4.1 million due to a \$12.9 million increase in revenues from our *fraud solutions*, a \$8.9 million increase in revenues from our *consumer solutions*, a \$5.2 million increase in revenues from our *collections and recovery solutions*, and a \$2.2 million increase in revenues from our other strategy machine solutions, partially offset by a \$16.5 million decrease in revenues from our *marketing solutions* and a \$8.6 million decrease in revenues from our *insurance and healthcare solutions*.

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The increase in *fraud solutions* revenues was attributable to an increase in license sales and an increase in transaction volumes. The increase in *consumer solutions* revenues was partially attributable to increases in revenues derived from myfico.com and our strategic alliance partners. The increase in *consumer solutions* revenues was also the result of a revision made during fiscal 2006 to the estimated period during which revenue is earned on sales of certain products that provide consumers access to multiple credit scores. The revision, which increased revenues by \$1.6 million in fiscal 2006, resulted from the completion of a study that showed that consumers were accessing their scores over a shorter period of time than initially estimated. The increase in *collections and recovery solutions* revenues was attributable primarily to an increase in perpetual license sales revenues. This increase was driven by higher international license sales due to increased sales efforts. The decrease in *marketing solutions* revenues was attributable primarily to the loss of two large financial services customers during fiscal 2005, which resulted from industry consolidation. The decrease in *insurance and healthcare solutions* revenues was attributable primarily to the loss of several customer accounts that primarily occurred in fiscal 2005.

Scoring Solutions segment revenues increased \$9.9 million primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening activities, and an increase in revenues derived from our own prescreening services directly to users. We also achieved increased revenues from our FICO expansion score product.

During fiscal 2006 and 2005, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 18% and 17%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased \$15.0 million from industry consulting services, implementation services for our Blaze Advisor products and predictive modeling services. The increase in industry consulting services revenue resulted from initiatives to expand our professional service offerings into additional industry markets.

Analytic Software Tools segment revenues decreased \$2.3 million primarily due to a decline in sales of perpetual licenses of Blaze Advisor. This decline reflects the timing of Blaze Advisor sales, which includes large individual contracts. The decline in revenues was partially offset by higher maintenance revenues and an increase in sales of Model Builder software applications.

Operating Expenses and Other Income (Expense)

The following tables set forth certain summary information related to our statements of income for the fiscal years indicated.

	2007	Fiscal Year 2006 (In thousands)	2005	Period-to-Period Change	
				2007 to 2006 (In thousands)	2006 to 2005
Revenues	\$ 822,236	\$ 825,365	\$ 798,671	\$ (3,129)	\$ 26,694
Operating expenses:					
Cost of revenues	293,482	281,977	275,065	11,505	6,912
Research and development	70,599	84,967	81,295	(14,368)	3,672

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Selling, general and administrative	285,541	260,845	223,400	24,696	37,445
Amortization of intangible assets	23,226	25,191	25,900	(1,965)	(709)
Restructuring and acquisition-related	2,455	19,662		(17,207)	19,662
Gain on sale of product line assets	(1,541)			(1,541)	
Total operating expenses	673,762	672,642	605,660	1,120	66,982
Operating income	148,474	152,723	193,011	(4,249)	(40,288)
Interest income	13,527	15,248	8,402	(1,721)	6,846
Interest expense	(12,766)	(8,569)	(8,347)	(4,197)	(222)
Other income (expense), net	427	(210)	1,022	637	(1,232)
Income before income taxes	149,662	159,192	194,088	(9,530)	(34,896)
Provision for income taxes	45,012	55,706	59,540	(10,694)	(3,834)
Net income	\$ 104,650	\$ 103,486	\$ 134,548	1,164	(31,062)
Number of employees at fiscal year end	2,824	2,737	2,796	87	(59)

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	Percentage of Revenues Fiscal			Period-to-Period Percentage Change	
				2007	2006
	2007	Year 2006	2005	to 2006	to 2005
Revenues	100%	100%	100%		3%
Operating expenses:					
Cost of revenues	35%	34%	35%	4%	3%
Research and development	9%	10%	10%	(17)%	5%
Selling, general and administrative	35%	32%	28%	9%	17%
Amortization of intangible assets	3%	3%	3%	(8)%	(3)%
Restructuring and acquisition-related		2%		(88)%	
Gain on sale of product line assets					
Total operating expenses	82%	81%	76%		11%
Operating income	18%	19%	24%	(3)%	(21)%
Interest income	2%	2%	1%	(11)%	81%
Interest expense	(2)%	(1)%	(1)%	(49)%	(3)%
Other income (expense), net					
Income before income taxes	18%	20%	24%	(6)%	(18)%
Provision for income taxes	5%	7%	7%	(19)%	(6)%
Net income	13%	13%	17%	1%	(23)%

At the beginning of 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, using the modified prospective transition method. Under this method, results for prior periods have not been restated to include share-based compensation expense for stock options or our Employee Stock Purchase Plan.

In accordance with SFAS No. 123(R), we recorded share-based compensation expense of \$36.3 million and \$42.1 million in fiscal 2007 and 2006, respectively. In comparison, we recorded share-based compensation expense of \$2.9 million during fiscal 2005. Share-based compensation expense was recorded in cost of revenues, research and development, and selling, general and administrative expense.

Cost of Revenues

Cost of revenues consists primarily of employee salaries and benefits for personnel directly involved in creating, installing and supporting revenue products; travel and related overhead costs; costs of computer service bureaus; internal network hosting costs; amounts payable to credit reporting agencies for scores; software costs; and expenses related to our consumer score services through myfico.com.

The fiscal 2007 over 2006 increase of \$11.5 million in cost of revenues includes a \$8.6 million increase in personnel and other labor-related costs, a \$2.2 million increase in third-party software and data, a \$1.8 million increase in facilities and infrastructure costs, and a \$1.1 million net decrease in various other expenditures. The increase in personnel and other labor-related costs was attributable primarily to an increase in salary and related benefit costs and an increase in outside consultant costs. The increase in third-party software and data costs was due to an increase in *consumer solutions* costs, which resulted from higher revenues, and a change in product mix. The increase in facilities and infrastructure costs was attributable to an increase in allocated costs associated with an increase in professional services activities.

The fiscal 2006 over 2005 increase of \$6.9 million in cost of revenues resulted from a \$15.5 million increase in personnel and other labor-related costs, a \$2.6 million increase in travel expenses and a \$0.6 million increase in

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other costs. The increase was partially offset by an \$8.4 million decrease in facilities and infrastructure costs and a \$3.4 million decrease in third-party software and data costs. The increase in personnel and other labor-related costs was attributable partially to a \$10.3 million increase in share-based compensation expense due to the adoption of SFAS No. 123(R) and the remaining \$5.2 million increase was primarily due to higher outside consultant costs. The increase in travel costs reflects the increase in professional service projects in the current year and associated travel to client locations. The decrease in facilities and infrastructure costs was attributable primarily to a reduction in depreciation expense, lower outside costs for information systems, and because fiscal 2005 included system integration costs associated with our acquisition of London Bridge. The decline in third-party software and data costs was attributable to a decrease in *insurance and healthcare solutions* costs, which was a result of lower revenues for these products.

In fiscal 2008, we expect that cost of revenues as a percentage of revenues will be consistent with the cost of revenues incurred during fiscal 2007.

Research and Development

Research and development expenses include the personnel and related overhead costs incurred in development of new products and services, including primarily the research of mathematical and statistical models and the development of new versions of Strategy Machine Solutions and Analytic Software Tools.

The fiscal 2007 over 2006 decrease of \$14.4 million in research and development expenditures was attributable primarily to a decrease in personnel and related costs of \$11.1 million, a \$2.9 million decrease in facilities and infrastructure costs and a \$0.4 million decrease in other costs. The decrease in personnel and related costs was the result of lower salary and benefit costs due to the shift of employees to non-U.S. locations and staff reductions, which occurred in the prior year period. The decrease in facilities and infrastructure costs was attributable to the shift of employees to lower cost non-U.S. locations and a decline in allocated costs due to the staff reduction.

The fiscal 2006 over 2005 increase of \$3.7 million in research and development expenditures was partially attributable to an increase in personnel and related costs of \$2.4 million, which was driven by a \$6.3 million increase in share-based compensation expense due to the adoption of SFAS No. 123(R). The increase in personnel costs was partially offset by lower salary and benefit costs due to staff reductions and the shift of employees to non-U.S. locations. The increase in research and development expenditures was also the result of a \$1.5 million increase in facilities and infrastructure costs.

In fiscal 2008, we expect that research and development expenditures as a percentage of revenues will be consistent with those incurred during fiscal 2007.

Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee salaries and benefits, travel, overhead, advertising and other promotional expenses, corporate facilities expenses, legal expenses, business development expenses, and the cost of operating computer systems.

The fiscal 2007 over 2006 increase of \$24.7 million in selling, general and administrative expenses was attributable to a \$9.7 million increase in personnel and other labor-related costs, an \$8.7 million increase in legal fees and the settlement of lawsuits associated with our *insurance solutions* products, a \$2.8 million increase in our provision for doubtful accounts receivable and a \$3.5 million increase in other expenses. The increase in personnel and labor-related costs resulted primarily from an increase in sales staff and commissions, partially offset by a decline in third party staffing costs and share-based compensation expense. The decline in share-based compensation expense was due to an

overall decline in share-based grants and an increase in forfeitures in fiscal 2007. The increase in marketing costs was driven by programs to promote brand awareness and drive sales growth. The increase in the provision for doubtful accounts resulted from an overall increase in accounts receivable and a related shift in aging of balances due to internal process inefficiencies and slower collections associated with certain international clients.

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The fiscal 2006 over 2005 increase of \$37.4 million in selling, general and administrative expenses was attributable to a \$32.1 million increase in personnel and other labor-related costs and a \$5.9 million increase in facilities and infrastructure costs, slightly offset by a \$0.6 million net decrease in other expenses. The increase in personnel and labor-related costs resulted from a \$22.6 million increase in share-based compensation expense due to the adoption of SFAS No. 123(R) and the remaining \$9.5 million increase was primarily due to higher salary and commission costs. The increase in facilities and infrastructure was due to higher information systems costs.

In fiscal 2008, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with, or slightly lower than, those incurred during fiscal 2007.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense related to intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Our definite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from two to fifteen years.

The fiscal 2007 over 2006 decline of \$2.0 million in amortization expense was attributable to certain intangible assets associated with our fiscal 2002 acquisition of HNC Software Inc., becoming fully amortized during fiscal 2007.

In fiscal 2008, we expect amortization expense will be lower than the amortization expense incurred in 2007 due to intangible assets that were fully amortized during fiscal 2007.

Restructuring and Acquisition-Related Expenses

The following table sets forth certain summary information on restructuring and acquisition-related expenses.

	2007	Fiscal Year 2006	2005
	(In thousands)		
Severance costs	\$ 1,012	\$ 5,198	\$
Vacating excess lease space	1,443	12,954	
Abandoned acquisition		2,184	
Restructuring plan adjustment-leased space		(674)	
Total restructuring and acquisition related expense	\$ 2,455	\$ 19,662	\$

In fiscal 2007, we recorded a charge of \$1.0 million for severance costs associated with the elimination of 13 management positions. In addition, we recorded a charge of \$1.4 million to vacate excess leased space located in California and Maryland. Included in the \$1.4 million charge was \$0.2 million to write off fixed assets that were abandoned as part of this action. The remaining charge of \$1.2 million was for future cash lease obligations, net of estimated sublease income. Cash payments for the majority of these costs will be paid in fiscal 2008. We expect these actions to result in annualized savings of approximately \$4 million, which represents compensation costs for terminated employees and a reduction in rent expense for the vacated lease space.

In connection with a restructuring initiative in fiscal 2006, we incurred charges of \$5.1 million for severance costs associated with a reduction of 190 employees primarily in product management, delivery and development functions. Cash payments for the majority of these severance costs were paid in fiscal 2006. As part of this restructuring initiative, we also recognized a \$0.1 million charge associated with the abandonment of leased office space representing future cash obligations under the lease.

As a result of vacating excess leased space located in California in fiscal 2006, we incurred a charge of \$13.0 million, representing future cash lease obligations, net of estimated sublease income. We expect that the future lease obligations will be paid out over the next four years, which represents the remaining term of the lease.

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In fiscal 2006, we recorded costs of \$2.2 million in connection with an abandoned acquisition, consisting of third-party legal, accounting and other professional fees.

We recorded a \$0.7 million gain in fiscal 2006 due to the sublease of office space that we had exited in fiscal 2002. The gain resulted from an adjustment to the liability established for the exit of the lease space and a refund received for past rent paid to the landlord.

Gain on Sale of Product Line Assets

In March 2007, we completed the sale of the assets and products associated with our *mortgage banking solutions* product line for \$15.8 million in cash. We recognized a \$1.5 million pre-tax gain on the sale.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements.

The fiscal 2007 over 2006 decrease of \$1.7 million in interest income was attributable to lower average cash and investment balances. The decrease in cash and investment balances resulted principally from cash used to repurchase common stock, partially offset by cash provided by operating activities and proceeds received from the exercise of employee stock options.

The fiscal 2006 over 2005 increase of \$6.8 million in interest income was attributable to higher interest and investment income yields due to market conditions and to a lesser extent higher average cash and investment balances. The increase in cash and investment balances resulted principally from cash provided by operating activities and proceeds received from the exercise of employee stock options.

Interest Expense

Interest expense recorded in fiscal 2007 relates to our 1.5% Senior Convertible Notes (*Senior Notes*), including the amortization of debt issuance costs, and interest associated with borrowings under our revolving credit facility. Interest expense recorded in fiscal 2006 was only related to the Senior Notes. Accordingly, the increase in interest expense of \$4.2 million in fiscal 2007 resulted from interest associated with borrowings under our revolving credit facility.

Interest expense recorded in fiscal 2006 relates to our Senior Notes, including the amortization of debt issuance costs, and was consistent with the interest expense related to the Senior Notes recorded by us during fiscal 2005.

Noteholders may require us to repurchase all or part of the Senior Notes as of August 15, 2008. If the noteholders require us to repurchase all or part of these notes, our interest expense may increase substantially.

Other Income (Expense), Net

Other income (expense), net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward exchange contracts, and other non-operating items.

Other income, net was \$0.4 million in fiscal 2007, compared with other expense, net of \$0.2 million in fiscal 2006. The change was driven by fiscal 2007 dividend income of \$1.6 million, a decline in foreign exchange losses of

\$0.2 million, a \$0.5 million loss in fiscal 2007 from the sale of company owned aircraft and gains totaling \$0.7 million that were recognized in fiscal 2006 from the disposition of investments.

Other expense, net was \$0.2 million in fiscal 2006, compared with other income, net of \$1.0 million in fiscal 2005. The change in other income (expense), net was primarily due to net foreign exchange losses of \$0.9 million recognized in fiscal 2006, compared with a net foreign currency gain of \$0.4 million recognized in fiscal 2005. The foreign exchange losses in fiscal 2006 were the result of unfavorable currency positions.

Table of Contents**Provision for Income Taxes**

Our effective tax rates were 30.1%, 35.0% and 30.7% in fiscal 2007, 2006 and 2005, respectively.

The decrease in our effective tax rate in fiscal 2007 compared with fiscal 2006 was due to the recognition in fiscal 2007 of \$8.2 million of tax benefits. The tax benefits included favorable settlements of the fiscal 1998 through 2001 U.S. federal examinations and the fiscal 1999 through 2002 California Franchise Tax Board examinations. Our effective tax rate, however, was adversely impacted by the sale of our mortgage banking solutions product line, due to \$3.3 million of goodwill associated with the product line that was not deductible for income tax purposes. These items reduced our effective tax rate in fiscal 2007 by 5.4%. Excluding these tax benefits, the effective tax rate for fiscal 2007 would have been 35.5%. In addition to the tax benefits, our effective tax rate in fiscal 2007 was also affected by the repeal of the Extraterritorial Income Exclusion (EIE), which was effective December 31, 2006. The EIE deduction reduced income tax expense by \$0.5 million in fiscal 2007 compared with \$4.6 million in fiscal 2006.

The increase in our effective tax rate in fiscal 2006 compared with fiscal 2005 was due to the recognition in fiscal 2005 of \$10.6 million of tax benefits. These benefits were determined in conjunction with tax studies we performed with outside advisors that identified additional U.S. federal and state tax credits and other deductions related to prior years tax returns. The tax benefits recognized reflect our estimate of the effect of amended tax returns filed for fiscal 1998 through 2004. These tax benefits reduced our effective tax rate in fiscal 2005 by 5.5%. Excluding these tax benefits, the effective tax rate for fiscal 2005 would have been 36.2%.

Operating Income

The following table sets forth certain summary information on a segment basis related to our operating income for the fiscal years indicated.

Segment	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2007	2006	2005	2007 to 2006	2006 to 2005	2007 to 2006	2006 to 2005
	(In thousands)			(In thousands)			
Strategy Machine Solutions	\$ 62,205	\$ 85,578	\$ 63,443	\$ (23,373)	\$ 22,135	(27)%	35%
Scoring Solutions	115,317	112,413	100,520	2,904	11,893	3%	12%
Professional Services	7,056	13,730	18,856	(6,674)	(5,126)	(49)%	(27)%
Analytic Software Tools	1,071	2,749	13,119	(1,678)	(10,370)	(61)%	(79)%
Segment operating income	185,649	214,470	195,938	(28,821)	18,532	(13)%	9%
Unallocated share-based compensation expense	(36,261)	(42,085)	(2,927)	5,824	(39,158)	14%	
Unallocated restructuring and	(2,455)	(19,662)		17,207	(19,662)	88%	

acquisition-related expense							
Unallocated gain on sale of product line assets		1,541		1,541			
Operating income	\$ 148,474	\$ 152,723	\$ 193,011	(4,249)	(40,288)	(3)%	(21)%

The fiscal 2007 over fiscal 2006 decrease of \$4.2 million in operating income was attributable to an increase in segment operating expenses, partially offset by the gain recognized on the sale of the mortgage banking solutions product line, lower share-based compensation expense and the impact of restructuring and acquisition-related costs that were recognized in fiscal 2006. At the segment level, the decrease in segment operating income was driven by decreases of \$23.4 million, \$6.7 million and \$1.7 million in segment operating income within our Strategy Machine Solutions, Professional Services and Analytic Software Tools segments, respectively. The decline was partially offset by a \$2.9 million increase in segment operating income within our Scoring Solutions segment. The decrease in Strategy Machine Solutions segment operating income was attributable to a decline in sales of *customer*

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management solutions and *originations solutions* products and higher operating expenses. The operating expense increase was driven by higher legal fees and settlement costs, an increase in marketing costs and higher third party data and software costs. The decrease in Professional Services segment operating income was the result of higher personnel costs to support increased professional services activities, which more than offset the increase in segment revenues. In our Analytic Software Tools segment, the decrease in segment operating results was due to increased personnel costs, partially offset by an increase in sales of licenses of our EDM products. The increase in Scoring Solutions segment operating income was attributable primarily to an increase in revenues derived from risk scoring services at the credit reporting agencies, partially offset by higher legal expenses.

The fiscal 2006 over fiscal 2005 decrease of \$40.3 million in operating income was attributable primarily to an increase in share-based compensation expense due to the adoption of SFAS No. 123(R) and restructuring and acquisition-related charges. The decrease in operating income was partially offset by an increase in segment revenues. At the segment level, the increase in segment operating income was driven by increases of \$22.1 million and \$11.9 million in segment operating income within our Strategy Machine Solutions and Scoring Solutions segments, respectively, partially offset by a \$10.4 million and \$5.1 million decrease in segment operating income within our Analytic Software Tools and Professional Services segments. The increase in Strategy Machine Solutions segment operating income was attributable to increases in sales of higher margin product offerings and a decline in operating expenses, partially offset by the impact of revenue declines we experienced in *marketing solutions* and *insurance and healthcare solutions*. The increase in Scoring Solutions segment operating income was attributable primarily to an increase in revenues derived from risk scoring services at the credit reporting agencies and an increase in revenues derived from our own prescreening services. In our Analytic Software Tools segment, the decline in segment operating income was due to a decrease in sales of perpetual licenses as well as increased product development and sales costs. The decrease in Professional Services segment operating income was the result of higher personnel and outside consultant costs.

Capital Resources and Liquidity***Cash Flows from Operating Activities***

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities decreased from \$199.0 million in fiscal 2006 to \$179.2 million in fiscal 2007. Operating cash flows were negatively impacted by an increase in trade receivables of \$15.8 million and unfavorable working capital changes. The increase in trade receivables resulted from internal process inefficiencies, slower collections associated with certain international clients and longer payment terms on certain customer contracts. Operating cash flows were also negatively impacted by \$6.1 million paid for restructuring-related liabilities.

Net cash provided by operating activities decreased from \$214.1 million in fiscal 2005 to \$199.0 million in fiscal 2006. The comparison of fiscal 2006 to fiscal 2005 operating cash flows was impacted by a \$20.8 million prepayment received in fiscal 2005 from a single customer for future services. Operating cash flows in fiscal 2006 were also negatively affected by payments of \$11.3 million for restructuring and acquisition-related activities and the increase of \$9.7 million in receivables, which reflects the increase in revenues and longer payment terms in certain customer contracts. In addition, prior to the adoption of SFAS No. 123(R), we presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows within our consolidated statements of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. Accordingly, the \$7.1 million excess tax benefit that is classified as a financing cash inflow on the accompanying consolidated statements of cash flows in fiscal 2006 was classified as an operating cash inflow prior to the adoption of SFAS No. 123(R).

Cash Flows from Investing Activities

Net cash provided by investing activities totaled \$37.4 million in fiscal 2007, compared to net cash used in investing activities of \$17.0 million in fiscal 2006. The change in cash flows from investing activities was primarily attributable to \$15.8 million in cash received from the sale of our mortgage banking solutions product line in fiscal

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2007, a \$40.2 million increase in proceeds from sales and maturities of marketable securities, net of purchases, and an \$8.7 million decrease in property and equipment purchases. In addition, cash flows from investing activities also reflect a \$10.0 million investment we made in a company that is developing predictive analytics solutions for healthcare providers.

Net cash used in investing activities totaled \$17.0 million in fiscal 2006 compared to \$2.9 million in fiscal 2005. The change in cash flows from investing activities was attributable to a \$41.3 million decrease in cash paid for acquisitions, due to our acquisitions of Braun and RulesPower in fiscal 2005, \$22.7 million decrease in cash proceeds from a business disposition due to the sale in fiscal 2005 of London Bridge Phoenix Software, and an \$18.1 million decline in proceeds from sales and maturities of marketable securities, net of purchases. In addition, capital expenditures increased by \$15.0 million in fiscal 2006, which included spending on a new information systems data center.

Cash Flows from Financing Activities

Net cash used in financing activities totaled \$198.7 million in 2007, compared to \$190.3 million in fiscal 2006. The increase in cash flows used in financing activities was primarily due to a \$194.6 million increase in common stock repurchased and \$9.0 million to repurchase Senior Notes. The increase in cash used in financing activities was partially offset by a \$170.0 million in cash proceeds received from borrowings under a revolving credit facility, a \$19.9 million increase in proceeds from the issuance of common stock under employee stock plans and a \$5.5 million increase in excess tax benefits from share-based arrangements. We used cash provided by operations, borrowings under the revolving credit facility and proceeds from stock issued under employee stock plans to fund \$451.1 million in common stock repurchased in fiscal 2007.

Net cash used in financing activities totaled \$190.3 million in fiscal 2006, compared to \$262.0 million in fiscal 2005. The decrease in cash used in financing activities was due to a \$72.1 million decline in common stock repurchased. In addition, prior to the adoption of SFAS No. 123(R), we presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows within our consolidated statements of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. Accordingly, the \$7.1 million excess tax benefit that is classified as a financing cash inflow on the accompanying consolidated statements of cash flows in fiscal 2006 was classified as an operating cash inflow prior to the adoption of SFAS No. 123(R). The decrease in cash used in financing activities was partially offset by a \$7.7 million decline in proceeds from issuances of common stock under employee stock option and purchase plans.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During fiscal 2007, 2006 and 2005, we expended \$451.1 million, \$256.5 million and \$328.5 million, respectively, in connection with our repurchase of common stock under such programs. In November 2007, our Board of Directors approved a new common stock repurchase program that replaces our previous program and allows us to purchase shares of our common stock up to an aggregate cost of \$250.0 million.

Dividends

We paid quarterly dividends of two cents per share, or eight cents per year, during each of fiscal 2007, 2006 and 2005. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to

continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

1.5% Senior Convertible Notes

In August 2003, we issued \$400.0 million of Senior Notes that mature on August 15, 2023. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial

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conversion price of \$43.9525 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 22.7518 shares of Fair Isaac common stock per \$1,000 principal amount of the Senior Notes. Holders may surrender their Senior Notes for conversion, if any of the following conditions is satisfied: (i) prior to August 15, 2021, during any fiscal quarter, if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the last day of the immediately preceding fiscal quarter is more than 120% of the conversion price per share of our common stock on the corresponding trading day; (ii) at any time after the closing sale price of our common stock on any date after August 15, 2021 is more than 120% of the then current conversion price; (iii) during the five consecutive business day period following any 10 consecutive trading day period in which the average trading price of a Senior Note was less than 98% of the average sale price of our common stock during such 10 trading day period multiplied by the applicable conversion rate; provided, however, if, on the day before the conversion date, the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes may receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash or common stock with a value equal to 100% of the principal amount of the notes on the conversion date; (iv) if we have called the Senior Notes for redemption; or (v) if we make certain distributions to holders of our common stock or we enter into specified corporate transactions. The conversion price of the Senior Notes will be adjusted upon the occurrence of certain dilutive events as described in the indenture, which include but are not limited to: (i) dividends, distributions, subdivisions, or combinations of our common stock; (ii) issuance of rights or warrants for the purchase of our common stock under certain circumstances; (iii) the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness, or other non-cash assets, or rights or warrants; (iv) the cash dividend or distribution to all or substantially all holders of our common stock in excess of certain levels; and (v) certain tender offer activities by us or any of our subsidiaries.

The Senior Notes are senior unsecured obligations of Fair Isaac and rank equal in right of payment with all of our unsecured and unsubordinated indebtedness. The Senior Notes are effectively subordinated to all of our existing and future secured indebtedness and existing and future indebtedness and other liabilities of our subsidiaries. The Senior Notes bear regular interest at an annual rate of 1.5%, payable on August 15 and February 15 of each year until August 15, 2008. Beginning August 15, 2008, regular interest will accrue at the rate of 1.5%, and be due and payable upon the earlier to occur of redemption, repurchase, or final maturity. In addition, the Senior Notes bear contingent interest during any six-month period from August 15 to February 14 and from February 15 to August 14, commencing with the six-month period beginning August 15, 2008, if the average trading price of the Senior Notes for the five trading day period immediately preceding the first day of the applicable six-month period equals 120% or more of the sum of the principal amount of, plus accrued and unpaid regular interest on, the Senior Notes. The amount of contingent interest payable on the Senior Notes in respect to any six-month period will equal 0.25% per annum of the average trading price of the Senior Notes for the five trading day period immediately preceding such six-month period.

We may redeem for cash all or part of the Senior Notes on and after August 15, 2008, at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest. Holders may require us to repurchase for cash all or part of the remaining Senior Notes outstanding on August 15, 2008, August 15, 2013 and August 15, 2018, or upon a change in control, at a price equal to 100% of the principal amount of the Senior Notes being repurchased, plus accrued and unpaid interest.

On March 31, 2005, we completed an exchange offer for the Senior Notes, whereby holders of approximately 99.9% of the total principal amount of our Senior Notes exchanged their existing securities for new 1.5% Senior Convertible Notes, Series B (New Notes). The terms of the New Notes are similar to the terms of the Senior Notes described above, except that: (i) upon conversion, we will pay holders cash in an amount equal to the lesser of the principal amount of such notes and the conversion value of such notes, and to the extent such conversion value exceeds the principal amount of the notes, the remainder of the conversion obligation in cash or common shares or combination

thereof; (ii) in the event of a change of control, we may be required in certain circumstances to pay a make-whole premium on the New Notes converted in connection with the change of control and (iii) if the conversion condition in the first clause (iii) in the third paragraph preceding this paragraph is triggered and the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, the holders converting New Notes shall receive cash with a value equal to 100% of the principal amount of New Notes on the conversion date.

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The first date noteholders could require us to repurchase the Senior Notes was August 15, 2007. As a result, certain noteholders exercised their repurchase option and we repurchased \$9.0 million of the Senior Notes. As of September 30, 2007, \$391.0 million of the Senior Notes remain outstanding and are classified as short-term debt in our consolidated balance sheet, because noteholders may require us to repurchase for cash all or part of the Senior Notes on August 15, 2008.

Credit Agreement

In October 2006, we entered into a five-year unsecured revolving credit facility with a syndicate of banks. In July 2007, we entered into an amended and restated credit agreement that increased the revolving credit facility from \$300 million to \$600 million. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The credit facility also contains covenants typical of unsecured facilities. As of September 30, 2007, we had \$170.0 million of borrowings outstanding under the credit facility at an average interest rate of 5.9%.

Capital Resources and Liquidity Outlook

As of September 30, 2007, we had \$234.4 million in cash, cash equivalents and marketable security investments. We believe that these balances, as well as borrowings from our \$600 million revolving credit facility and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements and any repayment of existing debt, including the possible retirement of our Senior Notes, over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Addition